COVER SHEET

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SEC Registration Number

PETROENERGY RESOURCES CORPORATION

(Company's Full Name)

7TH FLOOR JMT BUILDING
ADB AVENUE ORTIGAS CENTER
PASIG CITY

(Business Address: No. Street City/Town/Province)

ARLAN P. PROFETA	8637-2917
(Contact Person)	**(Company Telephone Number)**

12	31	**Definitive** 2 0 I S	08	18
Month	*Day*		*Month*	*Day*
(Fiscal Year)			(Annual Meeting)	

(Secondary License Type, If Applicable)

Dept. Requiring this Doc.

Amended Articles Number/Section

Total Amount of Borrowings

Total No. of Stockholders

Domestic

Foreign

To be accomplished by SEC Personnel concerned

File Number

LCU

Document ID

Cashier

S T A M P S

Remarks: Please use BLACK ink for scanning purposes.

PETROENERGY RESOURCES CORPORATION
7th Floor, JMT Building, ADB Avenue
Ortigas Center, Pasig City

8637-2917
Telephone Number

31 December 2019
Fiscal Year Ended

Notice of Regular Annual Stockholders' Meeting

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SEC Form 20-IS
Information Statement
Pursuant to Section 20
of the Securities Regulation Code
Form Type

PetroEnergy
PETROENERGY RESOURCES CORPORATION

NOTICE OF REGULAR ANNUAL STOCKHOLDERS' MEETING

TO OUR STOCKHOLDERS:

NOTICE IS HEREBY GIVEN that the Regular Meeting of the Stockholders of PetroEnergy Resources Corporation will be conducted virtually (or via online means of communication) **on August 18, 2020 at 1:30 p.m.**, with the following agenda:

(1) Certification of Service of Notice;
(2) Determination of Quorum/Call to Order;
(3) Approval of Minutes of the last Regular Stockholders' Meeting held on July 25, 2019;
(4) Approval of Management Report and the 2019 Audited Financial Statements contained in the 2019 Annual Report;
(5) Confirmation and Ratification of all acts, contracts and investments made and entered into by Management and/or the Board of Directors during the period July 25, 2019 to August 18, 2020;
(6) Election of seven (7) Members of the Board of Directors, including three (3) Independent Directors, for 2020-2021;
(7) Appointment of External Auditors;
(8) Other matters; and
(9) Adjournment.

Stockholders as of Record Date June 5, 2020 will be entitled to notice of, and to vote at, the Annual Meeting.

To conform with the Government's regulation on social distancing and prohibition on mass gatherings, the Company decided to hold the Regular Annual Meeting virtually or via online/remote communication, and allow the stockholders to cast their votes by proxy, or by remote communication, or *in absentia*.

To participate in the Annual Meeting, stockholders must register from **9:00 a.m. of July 20, 2020** until **5:00 p.m. of August 10, 2020** through the following link: http://petroenergy.com.ph/investor_relations and follow the steps provided therein. The procedures for participation via remote communication and *in absentia* may be found in the said link and in **Annex "B"** of the Information Statement.

Stockholders who wish to appoint proxies may submit proxy forms until **5:00 p.m. of August 10, 2020** to the Office of the Corporate Secretary at 7th Floor, JMT Building, ADB Ave., Ortigas Center, Pasig City or by email to asm@petroenergy.com.ph. Validation of proxies will be held on **August 10, 2020. A sample proxy form will be enclosed in the Information Statement for your convenience.**

ATTY. SAMUEL V. TORRES
Corporate Secretary

RATIONALE AND BRIEF DISCUSSION OF THE AGENDA
2020 ANNUAL STOCKHOLDERS' MEETING
(THE "ANNUAL STOCKHOLDERS' MEETING")

1. Call to Order

The Chairman of the Board of Directors (or the Chairman of the Meeting, as the case maybe) (the "Chairman") will call the meeting to order.

2. Determination of Quorum/Report on Attendance

The Corporate Secretary (or the Secretary of the Meeting, as the case may be) (the "Secretary") will certify that the written Notice for the meeting was duly sent to stockholders of record, including the date of publication and the newspaper where the notice was published. He will also certify that a quorum exists, and the Stockholders representing at least a majority (or 2/3 in certain cases required by the Revised Corporation Code) of the outstanding capital stock, present in person or by proxy, shall constitute a quorum for the transaction of business.

Pursuant to Sections 23 and 57 of the Revised Corporation Code and SEC Memorandum Circular No. 6, Series of 2020, stockholders may participate and vote through remote communication or in absentia. Stockholders may register by submitting the requirements via email at asm@petroenergy.com.ph and vote in absentia on the matters for resolution at the meeting. A stockholder who votes in absentia, as well as a stockholder participating by remote communication, shall be deemed present for purposes of quorum.

Please refer to **Annex "B"** Procedures and Requirements for Voting and Participation in the 2020 Regular Annual Stockholders' Meeting for complete information on remote participation or voting in absentia, as well as on how to join the livestream for the 2020 ASM.

3. Approval of the Minutes of the last Stockholders' Meeting held on July 25, 2019

The Minutes of the meeting held on July 25, 2019 are posted at the PetroEnergy Resources Corporation website: www.petroenergy.com.ph.

4. Approval of Management Report and the 2019 Audited Financial Statements

The Report summarizes the milestones and key achievements of PetroEnergy Resources Corporation (PERC) and provides a clear picture of how PERC achieved its goals and strategic objectives for the year 2019. The highlights of PERC's audited financial statements are explained in the President and Chief Executive Officer's Report and in the Definitive Information Statement. Copies of the 2019 Audited Financial Statements, which were previously approved by the Board of Directors, were also submitted to the Securities and Exchange Commission (SEC) and the Bureau of Internal Revenue.

5. Confirmation and Ratification of all acts, contracts and investments made and entered into by Management and the Board of Directors during the period July 25, 2019 to August 18, 2020.

The actions for approval are those taken by the Board and/or its Committees and/or the Management since the Annual Stockholders' Meeting on July 25, 2019 until August 18, 2020, including the approval of the internal procedures for participation in meetings and voting through remote communication or in absentia. Agreements, projects, investments, treasury-related matters and other matters covered by disclosures to the SEC and the Philippine Stock Exchange will likewise be presented for approval. The acts of the officers were those taken to implement the resolutions of the Board and/or its Committees or made in the general conduct of business.

6. Election of Seven (7) members of the Board of Directors (including Independent Directors) for 2020-2021

At its meeting held on July 06, 2020, the Corporate Governance Committee, as the standing committee of the Board of Directors constituted for the purpose of reviewing and evaluating the qualifications of persons nominated to become members of the Board of Directors (including the independent directors), and pursuant to the provisions of the Code of Corporate Governance for Publicly-Listed Companies, as the same are adopted in the Company's 2017 Manual on Corporate Governance, reviewed the candidates for director to ensure that they have all the qualifications and none of the disqualifications for nomination and election as members of the Board of Directors

The seven (7) nominees will be submitted for election to the Board of Directors by the stockholders at the Annual Stockholders' Meeting. The profiles of the nominees are provided in the Definitive Information Statement for the Annual Stockholders' Meeting.

Each shareholder is entitled to one (1) vote per share multiplied by the number of Board seats to be filled, i.e. seven, and may cumulate his/her votes by giving as many votes as he/she wants to any candidate, provided that the total votes cast shall not exceed the total votes to which he/she is entitled. In the event the votes cast by a stockholder exceeds that to which he/she entitled to vote, the Corporate Secretary, in his discretion, shall deduct such votes cast by the stockholder in favor of any nominee as may be necessary under the circumstances.

In the event that there would only be seven (7) nominees to fill seven (7) seats in the Board, the Chairman shall direct the Corporate Secretary to cast all votes in favor of those nominated, except the votes of stockholders who object to the said casting of votes, which objection is supported by majority of the stockholders present or represented in the meeting.

7. Appointment of the Company's External Auditors

The Company's Audit Committee assessed and evaluated the performance for the previous year of the Company's external auditors, SYCIP GORRES VELAYO & CO. (SGV). Based on the Audit Committee's endorsement, the Board of Directors will recommend the reappointment of SGV as the Company's external auditors for 2020.

SGV is one of the top auditing firms in the country and is fully accredited by the SEC.

A resolution for the appointment of the Company's external auditors for 2020 shall be presented to the stockholders for approval.

8. Other Matters

The Chairman will inquire whether there are other relevant matters and concerns to be discussed.

9. Adjournment

Upon determination that there are no other relevant matters to be discussed, the meeting will be adjourned on motion duly made and seconded.

SECURITIES AND EXCHANGE COMMISSION
SEC FORM-20-IS

INFORMATION STATEMENT PURSUANT TO SECTION 20
OF THE SECURITIES REGULATION CODE

1. Check the appropriate box:

   ________Preliminary Information Statement
   ___√__Definitive Information Statement

2. Name of Registrant as specified in its charter : PETROENERGY RESOURCES CORPORATION

3. Province, country or other jurisdiction of Incorporation or organization : Philippines

4. SEC Identification Code : AS094-008880

5. BIR Tax Identification Code : 004-471-419-000

6. Address of the principal office : 7th Floor, JMT Building
   ADB Avenue, Ortigas Center
   Pasig City 1605

7. Registrant's telephone number including area code : (02) 8637-2917

8. Date, time and place of meeting of security holders : August 18, 2020, 1:30 p.m. virtually or via online/ remote communication

9. Approximate date on which the Information Statement is first to be sent or given to security holders : July 27, 2020

10. Securities registered pursuant to Sections 8 and 12 of the Code or Sections 4 and 8 of SRC (information on number of shares and amount of debt is applicable only to corporate registrants):

Title of Each Class	Number of Shares of Stock Outstanding or Amount of Debt Outstanding
Common	568,711,842

11. Are any or all the Registrant's securities listed on a Stock Exchange?

   Yes __√__ No ______

If so, disclose name of the Exchange: **Philippine Stock Exchange, Inc. – common shares**

PETROENERGY RESOURCES CORPORATION
INFORMATION STATEMENT

A. GENERAL INFORMATION

1. Date, Time and Place of Meeting of Security Holders

The Regular Annual Stockholders' Meeting of PetroEnergy Resources Corporation will be held on Tuesday, **August 18, 2020 at 1:30 p.m.**

Mailing Address – 7th Floor, JMT Building, ADB Avenue, Ortigas Center, Pasig City 1600

The approximate date on which this Information Statement is first to be sent or given to security holders is on **July 27, 2020.**

WE ARE NOT ASKING YOU FOR A PROXY AND YOU ARE REQUESTED NOT TO SEND US A PROXY.

2. Dissenter's Right of Appraisal

There are no corporate matters or actions that will entitle dissenting stockholders to exercise their right of appraisal as provided under Title X, Section 80 of the Revised Corporation Code of the Philippines.

Although the following actions are not among the matters to be taken up during the **2020** Regular Annual Stockholders' Meeting, the stockholders are herein apprised of their appraisal rights pursuant to Title X of the Philippine Corporation Code. A stockholder shall have the right to dissent and demand payment of fair value of the share in case he voted against the following proposed corporate actions: (a) in case any amendment to the articles of incorporation has the effect of changing or restricting the rights of any stockholders or class of shares, or of authorizing preferences in any respect superior to those outstanding shares of any class, or extending or shortening the term of corporate existence; (b) in case of sale, lease, exchange, transfer, mortgage, pledge or other disposition of all or substantially all of the corporate property and assets; and (c) in case of merger or consolidation; and (d) in case of investment of corporate funds for any purpose other than the primary purpose of the Company.

As provided under Section 81 of the Revised Corporation Code, the dissenting stockholder who votes against a proposed corporate action may exercise the right of appraisal by making a written demand on the corporation for the payment of the fair value of shares held within thirty (30) days from the date on which the vote was taken: Provided, That failure to make the demand within such period shall be deemed a waiver of the appraisal right. If the proposed corporate action is implemented, the corporation shall pay the stockholder, upon surrender of the certificate or certificates of stock representing the stockholder's shares, the fair value thereof as of the day before the vote was taken, excluding any appreciation or depreciation in anticipation of such corporate action. If, within sixty (60) days from the approval of the corporate action by the stockholders, the withdrawing stockholder and the corporation cannot agree on the fair value of the shares, it shall be determined and appraised by three (3) disinterested persons, one of whom shall be named by the stockholder, another by the corporation, and the third by the two (2) thus chosen. The findings of the majority of the appraisers shall be final, and their award shall be paid by the corporation within thirty (30) days after such award is made: Provided, That no payment shall be made to any dissenting stockholder unless the corporation has unrestricted retained earnings in its books to cover such payment: Provided, further, That upon payment by the corporation of the agreed or awarded price, the stockholder shall forthwith transfer the shares to the corporation.

3. Interest of Certain Persons in Matters to be Acted Upon

The incumbent directors or officers of the Company, since the beginning of the last fiscal year, do not have substantial interest, direct or indirect, by security holdings or otherwise, in any matter to be acted upon. None of the incumbent directors informed the Company in writing that he/she intends to oppose any action to be taken during the annual meeting of the stockholders.

B. CONTROL AND COMPENSATION INFORMATION

4. Voting Securities and Principal Holders Thereof:

a) Number of Shares Outstanding as of May 31, 2020: **568,711,842**
Number of Vote each share is Entitled: **One (1) vote per share**

Of the total outstanding common capital stock as of May 31, 2020**, 568,024,108** shares (or **99.88%)** are owned by Filipino citizens, while **687,734 shares (**or **0.12%)** are owned by Foreigners.

b) All stockholders as of **June 05, 2020** are entitled to notice and to vote at the Regular Annual Stockholders Meeting.

c) Manner of Voting

Section 7 of Article III of the By-Laws of the Corporation provides that the stockholders may vote at all meetings the number of shares registered in their respective names either in person or by proxy executed in writing. Section 6 of the same Article provides that no proxy shall be recognized unless presented to the Secretary for inspection and registration at least three (3) calendar days before the date of said meeting (for the 2020 Regular Annual Stockholders' Meeting, the proxy should be presented to the Corporate Secretary not later than 5:00 p.m. on August 10, 2020). The By-Laws of the Corporation does not require notarization of proxies.

In the same vein, Section 23 of the Revised Corporation Code of the Philippines and Section 7, Article III of the Corporation's By-Laws provide that each stockholder may vote in any of the following manner:

1) he/she may vote such number of shares for as many persons as there are Directors to be elected;

2) he/she may cumulate said shares and give one candidate as many votes as the number of Directors to be elected multiplied by his/her shares;

3) he/she may distribute them, on the same principle, among as many candidates as he/she may see fit. In any of these instances, the total number of votes cast by the stockholders should not exceed the number of shares owned by him/her as shown in the books of the Corporation multiplied by the total number of Directors to be elected.

d) Security ownership of certain record and beneficial owners and management.

1) Security ownership of certain record and beneficial owners of more than 5% of Registrant securities as of June 30, 2020:

Title of Class	Name, Address of record Owner and relationships With the Issuer	Name of Beneficial Owner and relationship with the record owner	Citizenship	No. of Shares Held	%
Common	PCD Nominee Corp. G/F MSE Bldg., 6767 Ayala Ave., Makati City	PCD Nominee* (Various stockholders-beneficially owned by the participants of the PCD)	Filipino	527,177,198	92.70%
Common	House of Investments, Inc. 3rd Flr., Grepalife Building, 221 Sen. Gil J. Puyat Ave., Makati City	House of Investments, Inc. (Mr. Lorenzo V. Tan, President and Chief Executive Officer)	Filipino	21,805,861	3.83%
Common	Others	(Various stockholders)	Filipino	19,725,783	3.47%
TOTAL				**568,711,842**	**100.00%**

*Under PCD account, the following companies owned more than 5%:

i. RCBC Securities, Inc. – 293,457,607 or 51.60% of the Company's outstanding capital stock. The current nominee of RCBC Securities, Inc. is Mr. Raul M. Leopando. (Under RCBC Securities, Inc. with 5% of the Registrant securities). The breakdown of the shareholdings are as follows:

a.	GPL Holdings, Inc.	–	55,218,121 shares or	9.71%
b.	House of Investments, Inc.	–	143,662,864 shares or	25.26%
c.	RCBC Capital, Inc.	–	60,773,808 shares or	10.69%
d.	Other Stockholders	–	33,802,814 shares or	5.94%

ii. RCBC Trust and Investments Division – 64,474,717 shares or 11.34% of the Company's outstanding capital stock. RCBC Trust and Investments are trust accounts between RCBC and Beneficial Owners. The corporate acts of RCBC are carried out by its management through the guidance of its Board of Directors. Ms. Helen Y. Dee is the current Chairman of the Company.

2) Security Ownership of Management (as of June 30, 2020):

The following are the number of shares owned and of record by the Directors, the Chief Executive Officer and each of the key officers of the Company and the percentage of shareholdings of each:

Title of Class	Name of Beneficial Owner Name and Position	Amount and Nature of Beneficial Ownership	Citizenship	Percent of Class
Common	Helen Y. Dee Chairman	Direct 10,662 Indirect 5,006,574	Filipino	0.88%
Common	Milagros V. Reyes President/Director	Indirect 125,695	Filipino	0.02%
Common	Basil L. Ong Independent Director	Direct 1	Filipino	-
Common	Cesar A. Buenaventura Independent Director	Direct 1,300 Indirect 117,844	Filipino	0.02%
Common	Lorenzo V. Tan Director	Direct 1	Filipino	-
Common	Yvonne S. Yuchengco Director/Treasurer	Indirect 349,956	Filipino	0.06%
Common	Eliseo B. Santiago Independent Director	Direct 1	Filipino	-
Common	Francisco G. Delfin, Jr. Vice President	Direct 55,000 Indirect 27,500	Filipino	0.02%
Common	Samuel V. Torres Corporate Secretary	-	Filipino	-
Common	Arlan P. Profeta Asst. Corporate Secretary	-	Filipino	-
Common	Carlota R. Viray AVP for Finance	Direct 6,216 Indirect 69,001	Filipino	**0.01%**
Common	Maria Victoria M. Olivar AVP for Technical		Filipino	**-**
Total		**5,769,751**		**1.01%**

As of June 30, 2020, the Company's directors and executive officers owned an aggregate of 5,769,751 shares equivalent to 1.01%.

3) Voting Trust Holders of 5% or more

The Company is not aware of any voting trust or similar arrangement among persons holding more than 5% of a class of shares.

e) Changes in Control

There has been no change in the control of the Company since the beginning of last fiscal year. The Company has no existing voting trust or change in control agreements.

5. Directors and Executive Officers:

The members of the Board of Directors are elected at the general meeting of stockholders and shall hold office for a term of one (1) year or until their successors shall have been duly elected and qualified.

The Board Committee Members and other Officers of the Company, unless removed by the Board of Directors, shall serve as such until their successors are elected or appointed.

a. **Directors and Executive Officers**

The following are the names, ages, positions and periods of service of Directors and Executive Officers:

Name	Age	Position	Citizenship	Period of Service
Helen Y. Dee	75	Chairman (NED)	Filipino	2001 to present
Cesar A. Buenaventura	90	Director / Independent * (NED)	Filipino	1998 to present
Basil L. Ong	68	Director / Independent * (NED)	Filipino	2011 to present
Milagros V. Reyes	78	Director / President	Filipino	1998 to present
Yvonne S. Yuchengco	66	Director / Treasurer	Filipino	2004 to present
Lorenzo V. Tan	58	Director (NED)	Filipino	2019 to present
Eliseo B. Santiago	70	Director / Independent (NED)	Filipino	2013 to present
Francisco G. Delfin, Jr.	58	Vice President	Filipino	2008 to present
Samuel V. Torres	55	Corporate Secretary	Filipino	2006 to present
Arlan P. Profeta	46	Asst. Corporate Secretary	Filipino	2008 to present

NED - Non-Executive Director
* Cumulative Term of Nine (9) Years for Independent Directors elected prior to 2012 is reckoned from 2012.

The following are the Chairperson and Members of the Corporate Governance Committee for 2019-2020.

Chairperson – Mr. Basil L. Ong (Independent Director)
Members – Mr. Cesar A. Buenaventura (Lead Independent Director)
Mr. Eliseo B. Santiago (Independent Director)

Below are the incumbent directors who have been nominated to the Board of Directors of the Company for the ensuing year 2020-2021. The nominees have been approved for election by the Corporate Governance Committee at its meeting on July 06, 2020.

1. Ms. Helen Y. Dee – Regular Director
2. Ms. Milagros V. Reyes – Regular Director
3. Ms. Yvonne S. Yuchengco – Regular Director
4. Mr. Lorenzo V. Tan – Regular Director
5. Mr. Cesar A. Buenaventura – Lead Independent Director
6. Mr. Basil L. Ong – Independent Director
7. Mr. Eliseo B. Santiago – Independent Director

Nomination and Election of Independent Director:

The Corporate Governance Committee passed upon their qualifications and found no disqualifications, as provided for in the By-Laws, the 2017 Manual on Corporate Governance, the Board Charter, and in accordance with SRC Rule 38.

The Company has adopted SRC Rule 38, and compliance therewith has been made. Only nominees whose names appear on the Final List of Candidates shall be eligible for election as Independent Director. No further nominations shall be entertained or allowed on the floor during the actual annual stockholders' meeting.

The nominees for independent directors were advised of SEC Memorandum Circular No 5, Series of 2017 on the required submission of Certificate of Qualification of Independent Directors (the "Certificate of Qualification") that should include, among others, disclosure of any pending criminal or administrative investigation or proceedings, positions held in Government-Owned and Controlled Corporations and the required written permission or consent from the head of Department/Agency for those in government service. As disclosed by the nominees in their respective Certificate of Qualification, each nominee possesses all of the qualifications and none of the disqualifications.

The Independent Directors were likewise advised of SEC Memorandum Circular No. 4, Series of 2017 on the term limits for Independent Directors, i.e., independent directors shall serve a maximum cumulative term of nine (9) years, after which, they shall be perpetually barred from re-lection as such in the Company. The cumulative term of nine (9) years is reckoned from 2012. None of the independent directors has served beyond the maximum cumulative term of nine (9) years.

All independent directors were nominated by Atty. Dan Dyonne Eminiano Q. Gonzales, who has no relations with the Nominees. (Please see attached Annex "A" for the Certification of Independent Directors.)

Business Experiences during the Past five (5) Years and Educational Background.

Directors

MS. HELEN Y. DEE, 75, Filipino, Chairman (Non-Executive Director)

Publicly-Listed Companies: Ms. Dee has been a Director of the Company since 2001 and Chairman of the Board since 2011. She is also presently the Chairman of House of Investments, Inc., Rizal Commercial Banking Corporation, and EEI Corporation, and a Director of PLDT Inc.

Non-Listed: She is the Chairman of RCBC Excom Forex Brokers Corporation, Landev Corporation, Mapua Information Technology, Inc., Hi-Eisai Pharmaceuticals, Inc., Pan Malayan Realty Corporation, RCBC Savings Bank, Merchants Bank, La Funeraria Paz-Sucat, Malayan Insurance Company, Xamdu Motors, Inc., Manila Memorial Park Cemetery, Inc., PetroWind Energy, Inc. and Malayan High School of Science, Inc. She is the Chairman/President of Hydee Management & Resources, Inc.; Financial Brokers Insurance Agency, Inc., RCBC Leasing and Finance Corporation and Mijo Holdings, Inc.; She is also Chairman and CEO of Tameena Resources, Inc. She is the President of Moira Management, Inc., YGC Corporate Services, Inc. and GPL Holdings, Inc. She is the Vice Chairman of Pan Malayan Management and Investment Corporation and West Spring Development Corporation and Vice President of A.T. Yuchengco, Inc. She is also a Member, Board of Trustees of Mapua Institute of Technology, Inc. a leading engineering school in the Philippines, Malayan Colleges Laguna, Inc and Philippine Business for Education, Inc. She also sits in the Board of the following companies, South Western Cement Corp., Great Life Financial Assurance Corp., MICO Equities, Honda Cars Philippines, Inc., Isuzu Philippines, Inc., A.Y. Holdings, Inc. Pan Malayan Express, Honda Cars Kalookan, Sun Life Grepa Financial, Inc., Philippine Integrated Advertising Agency, Inc., Y Realty, Inc., Luis Miguel Foods.

Educational Background: Bachelor of Science in Commerce Major in Administration from the Assumption College; Master in Business Administration Degree from the De La Salle University.

MR. CESAR A. BUENAVENTURA, 90, Filipino, Independent Director.

Publicly-Listed Companies: Mr. Buenaventura is a Non-Executive Director of DMCI Holdings, Inc., iPeople, Inc., Semirara Mining and Power Corporation, Concepcion Industrial Corporation, and Pilipinas Shell Petroleum Corporation.

Non-Listed and Civic Affiliations: Mr. Buenaventura is also holding the following positions: Chairman at Buenaventura, Echauz and Partners, Inc., Mitsubishi Hitachi Power Systems (Phils.), Inc. He is a director of various companies such as: D.M. Consunji, Inc., The Country Club, and trustee of various foundations such as Pilipinas Shell Foundation, Inc. (Chairman), Bloomberry Cultural Foundation and ICTSI Foundation.

Educational Background and Other Information: Bachelor of Science in Civil Engineering from the University of the Philippines; Master's degree in Civil Engineering majoring in Structures from Lehigh University, Bethlehem, Pennsylvania as a Fulbright Scholar. In 1991, Mr. Buenaventura was made Honorary Officer of the Order of the British Empire (OBE) by Her Majesty Queen Elizabeth II.

MR. BASIL L. ONG, 68, Filipino, Independent Director.

Non-Listed: Transnational Diversified Group, Inc., Adventure International Tours, Inc. (Philippine representative of American Express, Inc.), Nike Stadium Stores and Kidz Station Stores) and Wordtext Systems, Inc. (WSI) and W.S. Pacific Publications, Inc.

Educational Background: Mr. Ong, received his Bachelor's Degree in Management from the Ateneo de Manila University and he completed his post graduate, the Program for Management Development, at the Harvard Business School.

MS. MILAGROS V. REYES, 78, Filipino, Director/President

Publicly-Listed Companies: Seafront Resources Corporation (President) and formerly, iPeople, Inc.

Non-Listed: She is the President/Director of PetroWind Energy Inc. and PetroSolar Corporation; President/Chairman of PetroGreen Energy Corporation; Chairman of Maibarara Geothermal, Inc.; and Director and Treasurer of Hermosa Ecozone Development Corporation. She previously served as President of Petrofields Corp. (now iPeople, Inc.); Senior Vice President of Basic Consolidated, Inc. (formerly Basic Petroleum and Minerals, Inc.); Vice President and Chief Operating Officer of Mapua Institute of Technology, Inc.; Director and Consultant of PNOC-EC.

Educational Background: Bachelor of Science in Geology and Physical Sciences (Double Degree) from the University of the Philippines. She pursued various technical trainings from the National Iranian Oil Co., University of Illinois, and Ajman Fields in U.A.E.

YVONNE S. YUCHENGCO, 66, Filipino, Director/Treasurer

Publicly-Listed Companies: House of Investments, Inc., Seafront Resources Corporation, and iPeople, Inc.

Non-Listed: She is also the Vice Chairperson/Director of Malayan Insurance Company, Inc., Mico Equities, Inc., Philippine Integrated Advertising Agency, Inc., Alto Pacific Corporation, RCBC Land, Inc. She also holds the position of Chairperson of First Nationwide Assurance Corporation, The Malayan Plaza Cond. Owners Association, Inc., RCBC Capital Corporation and XYZ Assets Corporation. Chairperson/President of Royal Commons, Inc., Y Tower II Office Cond Corp., Yuchengco Tower Office Condominium Corp. Director/Treasurer and CFO of Pan Malayan Mgm't. & Inv't. Corp., Director Seafront Resources Corporation; Honda Cars Kalookan, Mona Lisa Development Corporation, Asst. Treasurer, Enrique T. Yuchengco, Inc.; Member, Board of Trustees AY Foundation, Inc, Mapua Institute of Technology, Inc., Phil-Asia Assistance Foundation, Inc., Yuchengco Museum, Inc. She is a member of the Advisory Committee of Rizal Commercial Banking Corporation. She also sits in the board of several companies such as: HYDee Management and Resource Corp., La Funeraria Paz, Inc.-Sucat, Luisita Industrial Park Corp., Malayan College Laguna, Inc., Malayan Colleges, Inc., Malayan High School of Science, Inc., Malayan Insurance (H.K.), Malayan International Insurance Corporation, Manila Memorial Park, Inc., National Reinsurance Corporation of the Philippines, Pan Malayan Express, Inc., Pan Malayan Realty Corporation, Asia-Pac Reinsurance Co., Ltd., AY Holdings, Inc., DS Realty, Inc., Pan Pacific Computer Center, Inc., Shayamala Corporation and YGC Corporate Services, Inc.

Educational Background: Bachelor of Arts in Interdisciplinary Studies from the Ateneo De Manila University.

MR. LORENZO V. TAN, 58, Filipino, Non-Executive Director

Publicly-Listed Companies: He is currently an Independent Director of the Philippine Realty Holdings Corporation and Atok-Big Wedge Co., Inc. and a regular director of the House of Investments, Inc., EEI Corporation, and iPeople, Inc.

Non-Listed: He serves as the Vice Chairman of the Pan Malayan Management & Investment Corporation and the TOYM Foundation; a director of the Malayan Insurance Company, Inc., and Sunlife Grepa Financial, Inc; and member of the Board of Advisors of the FICO Group of Companies (Bangkok, Thailand).

Previous Experiences: He previously served as President and CEO of the Rizal Commercial Banking Corporation, Sunlife of Canada (Phil), Inc., the Philippine National Bank, United Coconut Planters Bank; as Director of SMART Communications, Inc., Digital Telecommunications (DIGITEL), and Voyager Innovation, Inc, and CITIBANK NA Singapore; as Group Managing Director of Guoco Holdings (Philippines) Inc.; as President of the Bankers Association of the Philippines and Chairman of the Asian Bankers Association. He was an awardee of the 1999 The Outstanding Young Men (TOYM) in the field of Banking.

Educational Background: He took his Master of Management Degree from J.L. Kellogg Graduate School of Management, Northwestern University Evanston, Illinois, USA, with concentration in Finance and Management Information Systems. He graduated with a degree of Bachelor of Science in Commerce, Major in Accounting from the De La Salle University, Manila, Philippines. He is a Certified Public Accountant in Pennsylvania, USA and in the Philippines.

MR. ELISEO B. SANTIAGO, 70, Filipino, Independent Director

Non-Listed: Mr. Santiago sits in the Board and is a member of the Executive Committee of Isla Petroleum and Gas Corporation. He is also an Independent Director of Supply Oilfield Services, Inc. He was formerly Chairman of the Board of the Clark Development Corporation; formerly, Chief Executive of the Shell Eastern Caribbean Group of Companies covering Supply & Trading, Sales & Marketing and Chemicals businesses of the Shell Group in 15 island countries based in Barbados; Managing Director of Pilipinas Shell Petroleum Corporation; Senior Adviser to the Regional Managing Director for Asia Pacific, based in London; Country Chairman of the Shell companies in Thailand and concurrently the Vice President for Retail for the ASEAN countries and Hong Kong, based in Bangkok; Country Chairman of the Shell companies in the Philippines in addition to his regional Retail Sales and Operations for the East, based in Manila.

Educational Background: Mr. Santiago is a graduate of Bachelor of Science degree in Mechanical Engineering from the Mapua Institute of Technology in 1971 and received his professional license as a Mechanical Engineer in the same year.

Executive Officers:

MILAGROS V. REYES, 78:	**President and CEO (1998 to present)**
Other Business Experience:	
President/ Director	Seafront Resources Corporation, PetroWind Energy Inc. PetroSolar Corporation
President/Chairman	PetroGreen Energy Corporation
Chairman/Director	Maibarara Geothermal, Inc.
Director/Treasurer	Hermosa Ecozone Development Corporation
Former Senior Vice President	Basic Petroleum and Minerals Corporation
Former Director	PNOC-EC, iPeople, Inc.
Educational Background:	Ms. Reyes graduated from the University of the Philippines with a Bachelor of Science degree in Geology and Physical Sciences Double Degree. She pursued Specialization and Training in National Iranian Oil Co., in Teheran, University of Illinois and in Ajman Fields in U.A.E.
FRANCISCO G. DELFIN, JR. 58:	**Vice President (2008 to present)**
Other Business Experience:	
President / Director	Maibarara Geothermal, Inc.
Vice President & COO / Director	PetroGreen Energy Corporation
Vice President / Director	PetroSolar Corporation
Vice President	PetroWind Energy, Inc.
Former Undersecretary	Department of Energy
Former Assistant Secretary	Department of Energy
Former Professor, Public Administration & Governance	University of the Philippines, Diliman Campus
Geophysics Supervisor	PNOC-EDC
Educational Background:	Mr. Francisco G. Delfin, Jr. is a graduate of Bachelor of Science in Geology from the University of the Philippines (6^{th} place in the 1982 Geologist Licensure Examination). He received his Master's Degree in Geology from the University of South Florida, Tampa, and his Ph.D. in Public Administration from the University of Southern California.

SAMUEL V. TORRES, 55 | **Corporate Secretary (2006 to present)**

Other Business Experience:
General Counsel/Corporate Secretary

AY Foundation, Inc., Alto Pacific Company, Inc. (Formerly: The Pacific Fund, Inc.), Bankers Assurance Corp., FBIA Insurance Agency, Inc., Bluehounds Security & Invt. Agency, Enrique T. Yuchengco, Inc., First Nationwide Assurance Corp., GPL Holdings, Inc. GPL Cebu Tower Office Cond. Corp., GPL Holdings, Inc., Grepaland, Inc., Grepa Reality Holding Corporation, Hexagon Integrated Financial & Insurance Agency, Hi-Eisai Pharmaceutical, Inc., Honda Cars Kalookan, Inc, House of Investments, Inc., Hexagon Integrated Fin. Ins. Agency, Inc., Hexagon Lounge, Inc., iPeople, Inc., Investment Managers, Inc., Landev Corporation, La Funeraria Paz-Sucat, Inc., Malayan High School of Science, Inc., Malayan Insurance Co., Inc., Mico Equities, Inc., Malayan Colleges, Inc., Malayan Colleges Laguna, Inc., Malayan Securities Corporation, Mapua Information Technology Center, Inc., MJ888 Corporation, Mona Lisa Development Corporation, Pan Malayan Management & Investment Corporation, Pan Malayan Realty Corporation, Pan Malayan Express, Inc., Pan Pacific Computer Center, Inc., People eServe Corporation, Philippine Integrated Advertising Agency, Inc., Royal Commons, Inc., RCBC Forex Corporation, RCBC Realty Corporation, RCBC Land, RCBC Securities, Inc., RCBC Bankard Services Corporation, RCBC Securities, Inc., RP Land Development Corporation, Sun Life Grepa Financial, Inc., Yuchengco Museum, YGC Corporate Services, Inc., Y Realty Corporation, Y Tower II Office Condominium Corp., Yuchengco Tower Office Condominium Corp. and Xamdu Motors, Inc.

Educational Background: Atty. Samuel V. Torres is a graduate of Bachelor of Science in Business Economics from University of the Philippines and Bachelor of Laws from Ateneo de Manila University.

ARLAN P. PROFETA, 46 | **Asst. Corporate Secretary (2008 to present)**
Compliance Officer (2017 to present)

Other Business Experience:

Corporate Secretary	Maibarara Geothermal, Inc. PetroGreen Energy Corporation PetroSolar Corporation
Corporate Secretary	PetroWind Energy Inc.
Asst. Corporate Secretary / Compliance Officer	Seafront Resources Corporation
Formerly, Tax Manager	Punongbayan & Araullo

Educational Background: Atty. Arlan P. Profeta graduated with a degree of Bachelor of Science in Accountancy from San Beda College. He is a Certified Public Accountant. He took his Bachelor of Laws degree from the Arellano University School of Law.

b. Legal Proceedings

The Company is not aware of any legal case, presently or during the last five (5) years, involving the present members of the Board of Directors or Executive Officers or their property before any court of law or administrative body in the Philippines or elsewhere. Moreover, the Company has no information that the above named persons have been convicted by final judgment of any offense punishable under the laws of the Philippines or of any other country.

c. Significant Employees

The Corporation has no employee who is not an executive officer that is expected to make a significant contribution to the business. The Corporation values its human resources. It strives to develop and maintain a safe, healthy, challenging, rewarding, participative, and fair working environment for all employees, and intends to utilize their full talents and expertise through effective selection, mentoring and development. The Company likewise seeks to offer career opportunities to qualified employees, regardless of gender, belief, ethnic or regional origin, and physical condition. It expects each employee act as a team player and do his or her share in achieving the Corporation's set goals.

d. Family Relationships

Ms. Helen Y. Dee and Ms. Yvonne S. Yuchengco are siblings.

e. Certain Relationships and Related Transactions

Related Party Transactions
Parties are considered to be related if one party has the ability, directly or indirectly, to control the other party or exercise significant influence over the other party in making financial and operating decisions. Parties are considered to be related if one party has the ability, directly or indirectly, to control the other party in making financial and operating decisions or the parties are subject to common control or common significant influence (referred to as 'Affiliates'). Related parties may be individuals or corporate entities.

Significant transactions with related parties are as follows:

	Transactions for the Years Ended December 31		Outstanding Balance Receivables (Payables)		Terms and
Related Party/Nature	**2019**	2018	**2019**	2018	**Conditions**
Investor					
House of Investments, Inc.					
Internal audit services	**₱739,200**	₱972,000	**(₱145,600)**	(₱377,875)	Note a
Joint Venture					
PetroWind					
Rental income	**857,143**	857,143	**–**	–	Note b
Time writing fee	**8,517,125**	6,408,310	1,411,611	1,220,483	Note c
Management income	**2,000,000**	2,000,000	–	–	Note c
Advances	**8,984,672**	4,246,046	**202,904**	39,961	Note d
			1,614,515	1,260,444	
Affiliate					
AC Energy Philippines, Inc. (formerly PHINMA)					
Electricity sales	**1,139,162,750**	1,110,004,166	**104,098,660**	146,493,151	Note e

	Transactions for the Years Ended December 31		Outstanding Balance Receivables (Payables)		Terms and
Related Party/Nature	**2019**	2018	**2019**	2018	**Conditions**
Affiliate					
EEI Power Corporation					
Other income	**₱550,000**	₱–	**₱616,000**	₱–	Note f
Loans payable	**123,200,000**	–	**–**	–	Note g
Interest capitalized	**1,694,000**	–	**–**	–	Note g
Interest expense	**1,148,155**	–	**–**	–	Note g
			₱106,183,575	₱147,375,720	

a. PetroEnergy has an Internal Audit Engagement arrangement with House of Investments, Inc. (HI). The internal audit services amounted ₱739,200 and ₱672,000 in 2019 and 2018, respectively. In 2018, HI rendered additional internal audit service amounting to ₱300,000 (nil in 2019). These are non-interest bearing and are due and demandable.

b. PetroGreen charges rental fees to PetroWind amounting to ₱71,429 every month. These are non-interest bearing and payable when due and demandable.
c. Time writing fees are charged by PetroGreen for accounting, legal management and other support services rendered to PetroWind. Management income refers to charges by PetroEnergy to PetroWind. These are non-interest bearing and are due and demandable.
d. Advances represent reimbursements of costs and expenses.
e. Electricity sales to ACEPH (formerly PHINMA) is pursuant to the Electricity Supply Agreement (see Note 33). This is due and payable on the last business day of the month succeeding the billing period and non-interest bearing if paid within the due date.
f. In 2019, PetroGreen charged EEI Power Corporation (EEIPC) amounting to ₱550,000 plus VAT representing charges for the equity valuation study.
g. In 2019, EEIPC granted a loan to PetroSolar amounting to ₱123.20 million with an interest rate of 5.50% per annum. The loan was converted into equity for subscription of unissued authorized capital stock in July 2019 increasing non-controlling interest (see Note 29).

On November 12, 2015, MGI entered into a ₱2.6 billion OLSA with PNB and DBP. EEIPC is a third-party

f. Disagreement with the Company

No Director has resigned from the Board of Directors since the date of the last meeting of shareholders due to disagreement with the Company on any matter relating to its operations, policies and practices.

6. Compensation of Directors and Executive Officers

Summary of Annual Compensation Table

Name and Principal Position		Year	Salary	Bonus	Other Annual Compensation	Total
Top 5 Highest paid key officers:						
Milagros V. Reyes	President					
Francisco G. Delfin	Vice President					
Carlota R. Viray	AVP - Finance					
Arlan P. Profeta	AVP - Legal and Administration					
Maria Victoria M. Olivar	AVP - Technical Affairs					
Total salaries top 5 highest paid officers		2017	12,214,987	5,672,760	992,651	18,880,398
		2018	13,066,431	9,156,068	920,350	23,142,849
		2019	13,948,386	8,837,996	1,096,922	23,883,304
		2020 est.	9,543,750	3,181,250	10,720	12,735,720
All Directors and Officers as a group		2017	12,214,987	5,672,760	1,292,651	19,180,398
		2018	13,066,431	9,156,068	5,804,539	28,027,038
		2019	13,948,386	8,837,996	5,417,248	28,203,630
		2020 est.	9,543,750	3,181,250	261,111	12,986,111

**the 2020 estimate does not include profit share*

The Company's fiscal year ends in the month of December of every year. Estimated compensation of all Directors and Officers for the year 2020 is P12.986 million.

Compensation of Key Management Personnel

The Company has a profit-sharing plan for its directors, officers, managers and employees as indicated in its by-laws. Section 3 of Article VII of the Amended By-Laws of the Company provides that directors, officers and employees shall share in the profit in the amount of five (5%) percent of the audited income before tax and profit share of the Corporation. The amount, the manner and occasion of distribution is at the discretion of the BOD, provided that the profit share shall not exceed 5% of the audited income before income tax and profit share.

The remuneration of the Group's directors and other members of key management are as follows:

	2019	2018	2017
Salaries and wages and other sho benefits	₱ **23,883,304**	₱ 23,142,849	₱ 18,880,385
Directors' fees	**5,417,248**	5,804,539	299,998
Retirement expense	**2,033,795**	2,537,817	1,486,580
	₱ **31,334,347**	₱ 31,485,205	₱ 20,666,963

The Board of Directors receives a per diem of P5,000.00, or its dollar equivalent, per meeting attended. No warrants or options were granted to the Directors and Officers from 2001 to 2019.

Aside from those mentioned above, there are no other arrangements pursuant to which any director of the Company was compensated, or is to be compensated, directly or indirectly, other than those stated in the above table during the Company's last completed fiscal year and the ensuing year for any service provided as an executive officer or member of the Board of Directors.

There is no director, executive officer, nominee for director, beneficial holder and family member involved in any business transaction of the Company.

7. External Auditors

a. Appointment of External Auditors

The Company's external auditor is SyCip Gorres Velayo & Co. (SGV & Co.), holding address at SGV Building, 6760 Ayala Avenue, Makati City, Philippines. Said external auditor has been reappointed during the scheduled annual meeting on July 25, 2019. The representatives of SGV & Co. have always been present at the shareholders' meeting held during prior years and shall likewise be present during this year's stockholders' meeting to respond to appropriate questions or make statements with reference to matters for which their services were engaged.

The Company is in compliance with SRC Rule 68 paragraph 3 (b)(1V) requiring the rotation of external auditors or engagement partners who have been engaged by the Company for a period of five consecutive years and the mandatory two-year cooling-off period for the re-engagement of the same signing partner or individual auditor. The engagement partner who conducted the audit for 2019, Ms. Ana Lea C. Bergado, has not been involved as engagement partner for more than five (5) years.

b. Audit and Other Related Fees

Audit and Other Related Fees
External audit fees (inclusive of VAT) of the Parent Company amounted to:

Particulars	**2019**	**2018**
SGV - Audit and review of the registrant's annual financial statements and other services rendered in connection with filing of said financial statements with SEC and BIR.	₱1,059,520	₱920,920
SGV - Review of quarterly and annual summary of application of proceeds in stock rights offering	123,200	123,200
SGV-Review in the shift of functional currency	-	308,000
Ernts & Young - Filing of tax return to the Gabonese Government and other services	1,542,358	1,542,358
Total	₱2,725,078	₱2,894,478

The Audit Committee approved the above fees based on the services rendered and the amount paid from the previous year's audit fees.

c. Changes and Disagreements with Accountants on Accounting and Financial Disclosure.

The Company has not changed SGV & Co. as its auditor and has not had any disagreements on any matter relating to accounting principles or practices, financial statement disclosures, or auditing scope or procedure during the last three years or any subsequent interim periods.

8. Compensation Plans

No action is to be taken with respect to any plan pursuant to which cash or non-cash compensation may be paid or distributed.

C. ISSUANCE AND EXCHANGE OF SECURITIES

9. Authorization or Issuance of Securities Other than for Exchange
There is no matter or corporate action to be taken up in the meeting with respect to issuance of securities.

10. Modification or Exchange of Securities
No modification of Outstanding Securities

11. Financial and Other Information
The Company's financial statements for the year ended December 31, 2019 and Management's Discussion and Analysis or Plan of Operations are contained in the Management Report portion of this Information Statement.

12. Mergers, Consolidation, Acquisition and Similar Matters
Not Applicable

13. Acquisition or Disposition of Property
Not Applicable

14. Restatement of Accounts
None

D. OTHER MATTERS

15. Actions with Respect to Reports

During the scheduled Regular Annual Stockholders' Meeting, the following shall be submitted to the stockholders for their approval:

a) The Minutes of the Annual Stockholders' Meeting held on July 25, 2019;

b) Approval of Management Report and the 2019 Audited Financial Statements contained in the 2019 Annual Report.

c) Confirmation and Ratification of all acts, contracts and investments made and entered into by Management and/or Board of Directors during the period of July 25, 2019 to August 18, 2020.

1) Constitution of various Committees and Appointment of Chairman and Members: (Organizational Meeting held on July 25, 2019), such as:

Audit Committee

Chairman	-	Cesar A. Buenaventura (Lead Independent Director)
Members	-	Basil L. Ong (Independent Director)
	-	Helen Y. Dee (Non-Executive Director)

Corporate Governance Committee

Chairman	-	Basil L. Ong (Independent Director)
Members	-	Cesar A. Buenaventura (Lead Independent Director)
	-	Eliseo B. Santiago (Independent Director)

Board Risk Oversight Committee

Chairman	-	Eliseo B. Santiago (Independent Director)
Members	-	Cesar A. Buenaventura (Lead Independent Director)
	-	Lorenzo V. Tan (Non-Executive Director)

2) Approval of the Authorized Signatories (BOD July 25, 2019)

3) Approval of the Second Quarter 2019 Financial Statements (SEC Form 17-Q). (BOD July 25, 2019)

4) Approval of the Third Quarter 2019 Financial Statements (SEC Form 17-Q). (BOD November 26, 2019).

5) Approval of the 2019 Audited Financial Statements. (BOD May 21, 2020)

6) Approval for the renewal of Directors' and Officers' Liability Insurance. BOD March 26, 2020).

7) Approval of the 1st Quarter 2020 Financial Statements (SEC Form 17-Q). (BOD May 21, 2020).

8) Approval of the holding of Regular Annual Stockholders' Meeting on August 18, 2020 at 1:30 p.m. (BOD May 21, 2020).

16. Matters Not Required to be Submitted

a) Proof of the required notice of the meeting.
b) Proof of the presence of a quorum.

17. Amendments of Charter, By-Laws and Other Documents

None

18. Other Proposed Action

None

19. Voting Procedures

Section 23 of the Revised Corporation Code of the Philippines and Section 7 of Article III of the By-Laws of the Corporation provides that:

"At all elections of Directors, each stockholder may vote the shares registered in his name in person or by proxy for as many persons as there are Directors, or he may cumulate said shares and give one candidate as many vote as the number of Directors to be elected multiplied by the number of his shares shall equal, or he may distribute them on the same principle among as many candidates as he shall see fit, provided, however, that the whole number of votes cast by him shall not exceed the number of shares owned by him as shown on the Company's stock transfer books multiplied by the whole number of Directors to be elected."

With respect to amendments to various provisions of Articles of Incorporation, the approval of the stockholders owning two-thirds (2/3) of the outstanding capital stock is required. Other items that need action of the stockholders require simple majority.

The voting procedure for election and approval of corporate actions in which Stockholders' approval will be required shall be by "*viva voce*", unless voting by ballot is decided upon during the meeting.

The methods by which votes will be counted, except in cases where voting by ballots is applicable, voting and counting shall be by "*viva voce*". If by ballot, counting shall be supervised by external auditors and transfer agent.

However, considering that the Company will dispense with the physical attendance of its stockholders, the Board of Directors has adopted an internal procedure for the voting and participation in the 2020 Annual Stockholders' Meeting, which covers both electronic voting *in absentia* and proxy voting. For the detailed steps and guidelines, please see attached **Annex "B"** – **Procedures and Requirements for Voting and Participation in the 2020 Annual Stockholders' Meeting.**

After reasonable inquiry and to the best of my knowledge and belief, I certify that the information set forth in this report is true, complete and correct. This report is signed in the City of Pasig on July __, 2020.

PETROENERGY RESOURCES CORPORATION
By:

ATTY. SAMUEL V. TORRES
Corporate Secretary

Undertaking to Provide Annual Report

UPON THE WRITTEN REQUEST OF A STOCKHOLDER, THE COMPANY UNDERTAKES TO FURNISH SAID STOCKHOLDER WITH A COPY OF THE ANNUAL REPORT ON SEC FORM 17-A, FREE OF CHARGE. ANY WRITTEN REQUEST FOR A COPY OF SEC FORM 17-A SHOULD BE ADDRESSED TO THE FOLLOWING:

Office of the Corporate Secretary
PETROENERGY RESOURCES CORPORATION
7th Floor, JMT Building, ADB Avenue
Ortigas Center, Pasig City

MANAGEMENT REPORT TO STOCKHOLDERS
PART I - BUSINESS AND GENERAL INFORMATION

INCORPORATED HEREIN ARE THE AUDITED CONSOLIDATED FINANCIAL STATEMENTS OF PETROENERGY RESOURCES CORPORTION FOR THE YEAR ENDED DECEMBER 31, 2019 WITH THE CORRESPONDING STATEMENT OF MANAGEMENT RESPONSIBILITY.

CHANGES IN AND DISAGREEMENTS WITH ACCOUNTANTS ON ACCOUNTING AND FINANCIAL DISCLOSURE

For the last five (5) years, there have been no disagreements with the independent accountant on any matter of accounting principles or practices, financial statement disclosures or auditing scope or procedure. During the two most recent fiscal years, the independent accountant has not resigned, was dismiss or otherwise ceased performing services for the Company. (Please see discussion on page 17 of the Information Statement Item 7 – Independent Public Accountant, Audit and Audit-Related Fees.

<u>Item 1 - Business Development</u>

PetroEnergy Resources Corporation ("PERC" or "PetroEnergy" or the Parent Company) is a publicly-listed domestic corporation. Its registered office and principal place of business is 7/F, JMT Building, ADB Avenue, Ortigas Center, Pasig City.

PERC was organized on September 29, 1994 as Petrotech Consultants, Inc. to provide specialized technical services to its then parent company, Petrofields Corporation, and to companies exploring for oil in the Philippines.

In 1997, PERC simultaneously adopted its present name and changed its primary purpose to oil exploration and development and mining activities. Subsequently in 1999, PERC assumed Petrofields' oil exploration contracts in the Philippines and the Production Sharing Contract covering the Etame discovery block in Gabon, West Africa.

On August 11, 2004, PERC's shares of stock were listed at the PSE by way of introduction.

In 2009, following the enactment of Republic Act No. 9513, otherwise known as the "Renewable Energy Act of 2008", PERC amended its articles of incorporation to include among its purposes the business of generating power from renewable sources such as, but not limited to, biomass, hydro, solar, wind, geothermal, ocean and such other renewable sources of power.

On March 31, 2010, PERC incorporated it's now 90%-owned subsidiary, PetroGreen Energy Corporation (PetroGreen or PGEC), to act as its renewable energy arm and holding company. PGEC ventured into renewable energy development and power generation through its subsidiaries and affiliate: (a) Maibarara Geothermal, Inc. (MGI, 65%-owned) - owner and developer of the 20 MW Maibarara Geothermal Power Project (MGPP-1) in Santo Tomas, Batangas and its expansion, the 12 MW MGPP-2; (b) PetroSolar Corporation ("PetroSolar", 56%- owned) - owner and developer of the $50MW_{DC}$ Tarlac Solar Power Project (TSPP-1) in Tarlac City and its 20 MW_{DC} expansion, TSPP-2; and (c) PetroWind Energy, Inc. ("PetroWind", 40%-owned) – owner and developer of the 36 MW Nabas Wind Power Project (NWPP-1) in Nabas and Malay, Aklan.

MGI and PetroSolar are effectively indirect subsidiaries of PetroEnergy through PetroGreen. PetroGreen owns majority of the voting power of MGI and PetroSolar. PetroEnergy, PetroGreen, MGI and PetroSolar are collectively referred to as the "Group" and were incorporated in the Philippines.

<u>Business of Issuer</u>

Description of Business

The Group's four (4) main energy businesses are: (a) upstream oil exploration and development, and power generation from renewable energy resources such as, (b) geothermal, (c) solar, and (d) wind, through the Group's affiliate, PetroWind.

(a) <u>Upstream Oil Exploration</u>

Oil and gas are usually buried several thousand meters underneath the earth. The explorationist, therefore, neither sees nor touches his objective. This lack of physical access, however, is compensated by the employment of state-of-the art technology in remote sensing via seismology, geology, and chemistry.

In the actual testing of prospects, computer-guided drills dig rock layers several kilometers below the surface. In offshore exploration and production, robot submarines are used to emplace and control subsea equipment and materials. The intensive application of modern technology is supported by large amounts of capital. Oil exploration companies worldwide had adopted the prudent strategy of pooling together, as consortia, in pursuing their projects in order to distribute risk and minimize financial exposures.

The common financial arrangement between host countries and the exploration companies is the sharing in costs and revenues from the sale of the hydrocarbon products. The host country partakes in the costs by allowing the explorationists to recover an agreed percentage of the historical costs before the net proceeds are divided between the government and the consortia.

Oil Exploration and Development Projects
The principal properties of the Company consist of various oil areas located in the Philippines and in Gabon. Petroleum production is ongoing in the Etame (Gabon) concession, while the other petroleum concessions in the Philippines are still in the advanced exploration stages or pre-development stages. The following is a brief description and update of each.

Foreign Operations

Gabon, West Africa

Background
The Group holds approximately 2.525% participating interest in the Exploration Production Sharing Contract ("EPSC") covering the Etame block in Gabon, West Africa, or the "Etame Permit"). The EPSC is a contract with the Gabon Government that gives the holder of the said EPSC exclusive rights and obligations to perform exploration, exploitation and production activities within the Etame Permit area. The other parties and their respective participating interests in the EPSC are as follows: Addax Petroleum Etame, Inc. (33.90%); Sasol Petroleum West Africa Limited (30.00%); VAALCO Gabon (Etame), Inc. (33.58%) (the "Gabon Consortium"), all are leaders in their respective areas of operation. VAALCO is the Consortium's operator, and as such, has the exclusive charge of conducting the exploration and production activities in the Gabon contract area.

The Etame Permit consists of an offshore exploration area of 307,360 hectares that extends from depths of 200 meters in the Atlantic shelf to near-shore Gabon. The Gabon Consortium was able to develop four (4) oil fields, namely, Etame, Avouma,Tchibala, and Ebouri oil fields. Aside from the EPSC, other licenses were required for the Gabon Consortium to conduct exploration, production and exploitation in these areas within the EPSC. Three Production Licenses are currently issued – the Etame Exclusive Exploitation Authorization (G5-88), the Avouma Exclusive Exploitation Authorization (G5-95), and the Ebouri Exclusive Exploitation Authorization (G5-98). Meanwhile, exploration activities outside of these three production license areas are authorized through the Etame Exploration License (G4-160).

In September 2018, the Gabonese Government allowed the Sixth Amendment to the EPSC that extends the exploitation period for the Production Licenses by ten (10) years, or from September 2018 until September 2028, extendible by five (5) years and by a final extension of five (5) more years. The extension further allows the Consortium to continue to develop the four (4) oil field in the Etame Marin block offshore the Republic of Gabon and explore the potential for resources in the surrounding area. The Amendment commits the Consortium to undertake new drillings and technical studies to be completed within two (2) years from the effectivity of the Amendment. Given past production from the block, it is anticipated that the committed drilling program for two (2) development wells and two (2) appraisal wells would further enhance the block's long-term commercial value.

As part of the commitment to the Sixth Amendment to extend the economic life of the field, the Consortium completed a three-well drilling program in the Etame and Southeast Etame fields, using the *Topaz Driller* jack-up rig. The first well in the drilling program, Etame-9H, was put on-line in November 27, 2019. Subsequent wells, Etame-11H and Southeast Etame-4H, were put on-line on January 04, 2020 and on March 22, 2020, respectively. Two (2) old wells, Etame-10H and Southeast Etame-2H, were also worked-over.

After the drilling and workover program in February 2020, overall crude production rose from just ~11,000 barrels of oil per day (BOPD) in October 2019 to ~22,000 BOPD—last experienced in mid-2009 after the Ebouri Field was put on-line. .

Given the extended EPSC period, the Consortium is currently firming up the most feasible Integrated Field Development Plan (IFDP) to extract the remaining recoverable oil volumes until at least 2028. This IFDP may include: 1) production from sour oil reserves, 2) outfield drilling opportunities, and 3) facility maintenance strategies.

Update on Production

Production is routed to the spread-moored Floating Production Storage and Offloading (FPSO) vessel from the Etame, Avouma-Southeast Etame-North Tchibala and Ebouri platforms, and from the wells tied to the subsea Etame manifold. The produced oils are processed and exported from the FPSO *Petroleo Nautipa*, which has a storage capacity of one million barrels of oil (MMBO).

Total crude production in 2019 reached 4.70 MMBO from four (4) oil fields (Etame, Avouma, Ebouri and North Tchibala). The Consortium managed 14 liftings, resulting in a net crude export of 4.63 MMBO, with crude oil market prices ranging from US$ 59-US$71 per barrel.

In 2018, total crude production reached 5.06 MMBO. The Consortium managed 14 liftings, resulting in a net crude export of 5.34 MMBO. Crude oil market prices for 2018 ranged from US$55-US$80 per barrel.

In 2017, the crude oil production reached 5.62 MMBO. The Consortium managed 12 liftings, resulting in a net crude export of 5.27 MMBO, with crude oil market prices ranging from $45.12 - $64.11 per barrel.

Since the Gabon oilfield has been put on-line in 2002, a total of 112 MMBO had been extracted to date over the last 17 years.

Philippine Operations

SC 6-A - Octon-Malajon Block

This is one of the first exploration areas in offshore Palawan. It includes about 165,000 hectares of relatively shallow water areas where a string of wells has found non-commercial oil accumulations in varied reservoir horizons. DOE granted in June 2009 the final 15-year extension of the SC-6A service contract.

In 2016, The Philodrill Corporation (Operator of the SC-6A Block), conducted Geological and Geophysical (G&G) evaluation of the northern portion of the contract area through broadband reprocessing of the 3D seismic dataset acquired in 2013, seismic interpretation works on the newly processed data, and quantitative interpretation (QI) works on the Octon datasets. These were carried over to 2017. Contractor DownUnder Geosolutions (DUG) has finished the preliminary processing works of the 2013 3D seismic dataset and is currently integrating the new data for the QI works. In 2018, technical evaluation efforts continued in the north block, particularly the Malajon-Salvacion-Saddle Rock prospects, in which Seismic Attributes mapping yielded several turbiditic channel systems within the reservoir intervals.

In 2019, Philodrill completed seismic interpretation and mapping works for the northern portion of the Octon-Malajon block, using recent and old SC 6A seismic data and subsurface data from the adjacent Galoc Field. For 2020, the mapped prospects and new potential leads will be further de-risked and brought to drillable status. The results of these activities will provide preliminary assessment on the viability of pursuing the drilling and possible development of the prospects.

In parallel, Philodrill is also reviewing a third-party technical evaluation on the southern portion of the block for a potential farm-in opportunity. Service Contract 6A is set to run until 2024.

SC 14-C2 - West Linapacan, Northwest Palawan

West Linapacan was discovered in the early 1990s. It produced oil from 1992 to 1996, peaking at 18,000 BOPD, before it was shut-in due to early water incursion. A 1,083 km 3D seismic survey was conducted and processed in 1997 to 1998, however, the farminees opted not to drill a well. The block was in suspension mode until 2006. In 2007 to 2015, two new farminees joined the Consortium and committed to conduct Geological and Geophysical (G&G) studies and to drill one well. However, the farminees defaulted and eventually left the Consortium. Philodrill took over as Operator and has been conducting its G&G studies to further strengthen the West Linapacan block to be revived for production.

In July 2018, CWT Consultancy Ltd. was engaged for a 3-month scoping study to investigate the feasibility of a re-entry of the West Linapacan A-1 (WLA-1) to gather reservoir data that would support a subsequent drill-stem test (DST) and/or an extended well test (EWT). Concurrent with the scoping study on the potential WLA-1 re-entry, technical evaluation work focusing on the adjacent West Linapacan “B” (WLB) structure was undertaken, using the 2014 Pre-SDM reprocessed seismic volume acquired from DUG in early 2017.

In 2019, Philodrill advanced the G&G works using recent reprocessed 3D seismic data acquired in 2017. These aim to mature the field further to identify drilling prospects.

Further, the SC 14-C2 Consortium is negotiating with a potential farmee for the drilling of these potential drilling targets, in exchange for a majority share and Operatorship of SC 14-C2. This farm-in is subject to the approval of the DOE.

PERC holds a 4.137% participating interest in SC 14C2.

SC 51 - East Visayas
The block covers the East Visayan basin in two parcels aggregating 444,000 hectares.

Activities in SC 51 has been dormant since 2015 after a failed drilling program and farm-in opportunity from Otto Energy. After Otto's exit and failed negotiations between the remaining Consortium members and the DOE, the DOE formally approved the relinquishment of SC 51 on July 1, 2019.

Prior to relinquishment, PERC owned 20.05% participating interest in SC 51. The other Consortium members were PHINMA Petroleum and Geothermal Inc. (PPGI) and Alcorn Petroleum and Minerals Corporation (APMC) with 33.35% and 46.60% participating interests, respectively.

SC 75 – Offshore Northwest Palawan

The block is the latest addition to the Group's local oil projects. It is located in the deep-water portion of Northwest Palawan and covers an area of 616,000 hectares. Activities completed so far include the acquisition of 2,200 line-km seismic data and the processing of the supplementary gravity and magnetics data, including the broadband processing of the entire 2D seismic data to enhance its quality. On September 9, 2015, the DOE placed SC 75, along with adjacent blocks SC 58 (West Calamian) and SC 72 (Recto Bank), under force majeure due to the geopolitical tensions in the West Philippine Sea. To date, the block is still under force majeure, putting exploration activities on hold. The Consortium is ready to resume exploration works, which include acquisition and processing of new 3D seismic data, once the *Force Majeure* status is lifted.

Other Consortium members are Operator PXP Energy Corporation, with 50% participating interest, and PNOC Exploration Corporation, with 35% participating interest.

Summary of Petroleum Properties:

Contract No.	Contract Expiry	Participating Interest %	Location
Production Sharing Contract (PSC) 93 - Etame Marine	2028	2.525%	Gabon Offshore
Service Contracts (SC) - Philippines			
SC 6A - Octon Malajon Block	2024	16.670%	Northwest Palawan
SC 14C2 - West Linapacan	2025	4.137%	Northwest Palawan
SC 75- NW Palawan	2020	15.000%	East Visayan Sea

The oil revenues are derived from Gabon Operations. All contractual obligations with the Gabonese Government are complied with. The Philippine contracts are in exploration stage and some contracts are being farmed out to reduce risk inherent to the business.

Renewable Energy

(b) <u>Geothermal</u>

Maibarara Geothermal Power Project
Geothermal Renewable Energy Service Contract (GRESC) No. 2010-02-012
Following the Department of Energy's (DOE) Philippine Energy Contracting Round for Geothermal in 2009, PetroEnergy signed the Service Contract for the Maibarara Geothermal Power Project (MGPP) on February 1, 2010. PERC then conducted pre-development activities in 2010 to 2011. In order to carry out the development and operations of the MGPP, PERC (through its subsidiary, PGEC) then created MGI along with Trans-Asia (now PHINMA) and PNOC, with 65%, 25%, and 10% equity ownerships, respectively.

<u>20 MW Maibarara Geothermal Power Plant (MGPP-1)</u>
The DOE confirmed the commerciality of the 20-MW MGPP-1 in 2011, allowing MGI to proceed with the MGPP's development stage, involving 1) the drilling of two (2) wells to complete the steam production and reinjection well capacities, and 2) the construction of the steamfield and power plant facilities. The MGPP's 115kV Transmission Line system was successfully connected to the existing MERALCO line in September 2013. Upon completion of the reliability and

performance testing, the MGPP-1 went on commercial operations on February 8, 2014. All electricity generated are sold to offtaker, PHINMA.

On April 26-29, 2019, the MGPP-1 had a scheduled minor maintenance shutdown. Various maintenance activities for the unit's mechanical and electrical and instrumentation facilities, as well as for the switchyard and transmission lines, were carried-out by MGI technical staff and private contractors.

On the steamfield side, the two (2) production wells dedicated to MGPP-1 operations—Mai-6D and MB-12D—continued to behave consistently with dynamic but sustainable production.

MGPP-1 exported 162.09 GWh and 161.56 GWh of electricity, in 2019 and 2018, respectively.

<u>12 MW Maibarara-2 Geothermal Power Plant (MGPP-2)</u>
With the stable performance of the reservoir, MGI decided to pursue an expansion of the MGPP. There is at least 5 MW excess steam supply from the MGPP-1 wells, and with the ~6 MW capacity of the new well, an expansion to 12 MW was decided and approved in 2015 (MGPP-2).

Major power plant components from Fuji Electric Co. Ltd. ("Fuji", the same supplier as the MGPP-1) were delivered and installed on site in March to April 2017. MGPP-2 was first synchronized to the grid on March 9, 2018, with the full 12 MW attained on March 18, 2018. Reliability tests were then conducted from March 18-27 during which the power plant was on full 12 MW operation. After which, the Energy Regulatory Commission (ERC) formally notified MGI of the approval of MGPP-2's Certificate of Compliance (COC) application on April 26, 2018. Subsequently, the MGPP-2 was accepted into the Wholesale Electricity Spot Market (WESM) on April 30, 2018 – pegging the MGPP-2's start of Commercial Operations on the same date. This operationally started the application of MGPP-2's Electricity Sales Agreement (ESA) with PHINMA, now ACEPH.

MGPP-2 is the first geothermal facility to be put up under the administration of President Duterte, the only geothermal power plant installed in the country since 2014, and the fourth power generating plant put up by PERC from 2014 to 2018.

As of December 31, 2019 MGPP2 exported 94.44GWh while

From April 30 to December 31, 2018, MGPP-2 achieved total generation of 64,192 MWh.

Both the MGPP-1 and the MGPP-2 are registered with the Board of Investments (BOI) and are enjoying the incentives under the Renewable Energy (RE) Act of 2008.

(c) <u>Solar</u>

<u>Tarlac Solar Power Project (TSPP)</u>
Solar Energy Service Contract (SESC) No. 2015-03-115)
The Solar Service Contract for the TSPP was awarded by the DOE on March 19, 2015. On June 17, 2015, PGEC and affiliate EEI Power Corporation ("EEIPC", 100% subsidiary of EEI Corporation), incorporated PetroSolar Corporation (PSC) to undertake the development of the TSPP.

<u>50 MWDC Tarlac Solar Power Project (TSPP-1)</u>
On June 22, 2015, PGEC and solar farm lot owner, Luisita Industrial Park Corporation (LIPCO) executed a Lease Agreement for the 55-hectare solar farm development. This was assigned to PSC on September 15, 2015. As the LIPCO property is within the Central Technopark, which is under the jusrisdiction of the Philippine Economic Zone Authority (PEZA), PSC was able to register as an Ecozone Utilities Enterprise on July 28, 2015, entitling it to the incentives available to PEZA locators.

The TSPP was declared commercial by the DOE in September 2015, enabling the start of the construction of the 50 MW_{DC} TSPP-1. The major solar equipment supply contract was awarded to German firm Conergy Asia & ME Pte. Ltd. (Conergy). Conergy's local Philippine contractor was Phesco Inc. The civil and structural works were awarded to Media Construction and Development Corporation, while Philcantech Enterprises (an electrical firm based in Tarlac City) undertook the supply, delivery and installation of the 5.9-kilometer 69-kV transmission line linking the TSPP to the grid.

After only four (4) months of ground works, the TSPP-1 was completed by mid-January 2016 and was able to export power to the grid on January 27, 2016. The DOE eventually gave its Certificate of Endorsement (COE) - Feed-in-Tariff (FiT) for TSPP-1, with the official Commercial Operations Date on February 10, 2016. Subsequently, on April 6, 2016, PSC executed its Renewable Energy Payment Agreement (REPA) with the National Transmission Corporation (TransCo), assuring the TSPP-1's revenues from the FiT payment of ₱8.69/kWh from 2016 to 2036.

The total energy exported to the grid was 65.46 GWh and 70.54 GWh in 2019 and 2018, respectively.

20 MWDC Tarlac Solar Power Project (TSPP-2)

On September 17, 2018, the BOI formally awarded to PSC the Certificate of Registration for the proposed 20 MW_{DC} TSPP-2. This approval entitles the proposed expansion facility to enjoy duty-free importation, seven-year Income Tax Holiday (ITH), among others. PetroSolar has also formally filed with the DOE the Declaration of Commerciality for the TSPP-2.

By the end of December 2018, civil works contractor, Media Construction and Development Corporation (MCDC), completed the site clearing, ground levelling, and compaction works for the whole 22-hectare TSPP-2 lot (likewise under a long-term lease agreement with LIPCO). All six (6) quadrants were turned over and accepted by Solenergy Systems Inc., the main EPC contractor.

After the site construction works on the TSPP-2 were completed in March 2019 and the registration with the Wholesale Electricity Spot Market (WESM) was secured from the Independent Electricity Market Operator of the Philippines Inc. (IEMOP) on April 21, 2019, the TSPP-2 started exporting power to the grid on April 22, 2019 as part of its testing and commissioning activities. The Energy Regulatory Commission (ERC) conducted its technical inspections for the TSPP-2 on May 31, 2019 for its award to TSPP-2 of the Certificate of Compliance (COC).

On February 27, 2020 and March 18, 2020, the DOE formally issued to PSC the Certificate of Confirmation of Commerciality (COCOC) and the Certificate of Endorsement (COE) for TSPP-2, respectively. The COE is a prerequisite to the issuance of the Certificate of Compliance (COC). The COC will determine the official Commercial Operations Date (COD) for TSPP-2.

The TSPP-2, during its testing phase, exported 18,917 MWh to the grid in 2019.

Puerto Princesa Solar Power Project (PPSPP)

Solar Energy Service Contract for (SESC) No. 2017-01-360

The Service Contract for PGEC's newest proposed renewable energy project – the Puerto Princesa Solar Power Project or PPSPP was signed by DOE Secretary Alfonso Cusi on February 27, 2017. The PPSPP aims to put up a 10-20MW off-grid solar hybrid power facility in Puerto Princesa City, Palawan to meet the increasing electricity demand and address the fluctuating electricity situation in the city through solar power.

Pre-development works have been commenced already, including technical and financial due diligence studies. Major permits such as the host local government unit's favorable endorsements, the Strategic Environmental Plan (SEP) Clearance from the Palawan Council for Sustainable Development (PCSD), the Environmental Compliance Certificate (ECC) from the DENR-EMB Region IV-B, and the Certificate of Non-Overlap from the National Commission on Indigenous Peoples (NCIP), were already secured.

To date, PGEC has secured all local government endorsements needed for eventual facility development. In January 2020, PGEC was among seven (7) pre-qualified bidders for the 20-MW Palawan Main Grid Competitive Selection Process (CSP) of the Palawan Electric Cooperative (PALECO). The CSP schedule of PALECO is slated for mid-2020, and PALECO aims to award the Power Supply Agreement (PSA) to the winning proponent within 2020. After which, the winning proponent will be required to put up the power generation facility within one (1) year. The final investment decision to proceed with actual power plant construction depends on securing this PSA with PALECO.

(d) Wind

Nabas Wind Power Project (NWPP)

Wind Energy Service Contract (WESC) No. 2009-09-002

The service contract for the NWPP covers 2,000 hectares of public and private lands in rolling terrain located near the northwestern tip of Panay Island. It lies about 6 km southeast of Caticlan, and electricity-deficient Panay and Boracay islands are natural markets of future power from Nabas or the Nabas WESC. In 2012, activities were focused on securing critical government permits, completing technical feasibility studies and initiating requests for engineering, procurement and construction bids. PGEC incorporated PetroWind Energy, Inc. (PWEI) on March 6, 2013 to undertake the NWPP.

It was decided that the NWPP will be constructed in two phases. Phase 1 for the existing 36MW NWPP-1 consisting of 18 Wind Turbine Generators (“WTG”);while Phase 2 will be a 14MW development that will have seven (7)WTGs (NWPP-2).

On May 26, 2013, the DOE issued the Confirmation of Commerciality of the 36 MW NWPP-1, making it the third WESC to be declared commercial. This converted the Nabas WESC from the Pre-Development Stage to the Development Stage, enabling PWEI to proceed with the construction and development of the NWPP-1. EEI Corporation (“EEI”) was engaged to conduct the civil works consisting of the construction of the access roads, temporary landing pad and the WTG foundation. Cendaur Engineering was contracted to undertake the construction of the transmission line and substation. Gamesa Eolica SL Unipersonal, a Spanish company, and its Philippine branch were engaged to supply, transport and install the WTGs. Construction of NWPP-1 started in December 2013 and was completed in the first half of 2015.

On March 24, 2015, PWEI successfully energized and dispatched power from 8 WTGs (WTG’s 1-8) to the Visayas grid. On April 17, 2015, the DOE issued its Nomination for FIT Eligibility of NWPP 1. The DOE also released on April 30, 2015, its Certificate of Endorsement of NWPP 1, which is one of the requirements for the ERC to process PWEI’s Certificate of Compliance (“COC”) for the power facility and for FIT eligibility. By June 2015, all 18 WTG’s became operational. On June 16, 2015, the DOE released the Certificate of Endorsement (“COE”) for FIT Eligibility endorsing the official start of commercial operation to be June 10, 2015. The ERC also completed the site visit for DOE’s COE-FIT validation on June 24-25, 2015. On August 17, 2015, the ERC approved PWEI’s COC for NWPP 1. This confirms the commercial operation date of the wind farm to be June 10, 2015.

In 2017, recently-merged WTG supplier Siemens-Gamesa completed the following maintenance works on site: 1) 24-month wind turbine-generator (WTG) maintenance in June, 2) 30-month WTG maintenance in November, 3) semi-annual electrical maintenance in October, and 4) several and specific corrective works on the WTG blades and electrical modules.

Major and long-lead equipment spares, such as WTG transformer, generator, and gearbox, were acquired to avoid long and unplanned shutdowns due to sudden equipment failure similar to those that recently plagued other Philippine wind developers.

Siemens-Gamesa Renewable Energy (SGRE) completed its 36-Month (36M) WTG maintenance works, which started last April 16, 2018. The annual preventive maintenance works for the 69-kV electrical facilities (Substation, Switching Station, and Control Building equipment) were also completed last April 21-22, 2018.

On December 25, 2019, Typhoon Ursula (with international name Phanfone) hit the Visayas region, affecting several WTGs. These were put back on line in January to February 2020.

The annual total energy exported to the grid were 110.07 GWh, 116.86 GWh, and 97.85 GWh in 2019, 2018, and 2017, respectively.

Proposed San Vicente Wind Hybrid Power Project (SVWPP)

The Wind Energy Service Contract for PGEC’s latest off-grid renewable energy project, the SVWPP, was signed by DOE Secretary Alfonso Cusi on October 09, 2019. The SVWPP aims to put up a 5-10 MW off-grid wind-hybrid power facility in San Vicente, Palawan to meet the increasing electricity demand and address the lack of reliable power supply in the town through wind power or a hybrid thereof.

PGEC will undertake the three-year pre-development stage starting 2020, consisting of: 1) Two-year wind measurement campaign, 2) LGU and regulatory permitting works, and 3) technical and economic feasibility works for a potential wind-hybrid system in San Vicente.

Summary of Renewable Energy Service Contract:

Contract No.	Contract Expiry	Location
Wind Energy Service Contract No. 2009-09-002	2034	Nabas -Buruanga-Malay, Aklan
Geothermal RE Service Contract No. 2010-02-012	2035	Maibarara,Batangas/Laguna
Solar Energy Service Contract No. 2015-03-115	2040	Tarlac City, Tarlac
Solar Energy Service Contract No. 2017-01-360	2042	Puerto Princesa City, Palawan

Products
The Group's main products are revenues from electricity sales from renewable energy projects and crude oil production.

Electricity sales contributed 83.46% to the total revenues as of December 31, 2019. These were generated by the MGPP and TSPP.

Oil revenues are derived largely from PERC's share of producing offshore oil fields in Gabon, West Africa, which contributes 16.54% of the total revenues as of December 31, 2019.

Distribution Method
Electricity Sales

For Maibarara Geothermal Power Plant (MGPP) Unit 1 (20 MW) and MGPP Unit 2 (12 MW) which started commercial operations on February 8, 2014 and April 30, 2018, respectively, all the energy exported is sold to AC Energy Philippines, Inc (formerly PHINMA Energy Corporation), a retail electricity supplier (RES), through an electricity supply agreement (ESA).

For the 50 MWdc Tarlac Solar Power Project (TSPP) which started its commercial operations on February 10, 2016 and qualified for the Fee-in-Tariff (FIT) scheme, all energy is exported to the grid and is distributed to all end-users who are connected to the grid. The National Transmission Corp.(TransCo), as the FIT administrator, facilitates the payments to FIT-eligible plants, such as TSPP.

Crude oil
The Consortium entered into a crude sales agreement with Mercuria Energy Trading SA where a single buyer is committed to buy a minimum of 300,000 bbls per lifting based on a pricing scheme that is benchmarked on Dated Brent. Dated Brent represents the value of physical crude oil trading for prompt delivery in the open spot market. With this type of agreement, the Consortium will be assured of its crude oil being purchased at a fixed pricing scheme.

Physical transfer of the oil was effected at the offshore production site from the Floating Production Storage and Offloading Vessel (FPSO) to the buyer's oil tanker.

Competition
In the Company's RE business, there is a risk that bigger power producers, particularly those that operate coal power plants, may command lower prices and thus be preferred by potential offtakers over the electricity generation from power generating assets of the Company. To mitigate this risk, long-term contracts have been and will be secured for its RE power projects. MGI has secured a long-term Electricity Supply Agreement with PHINMA ensuring stable and predictable cash flows for the 20-year duration of the agreement. As for the TSPP-1 and NWPP-1, FIT rates of P8.69/kWh and P7.40/kWh, respectively, have been secured from the DOE, with the approval of the Energy Regulatory Commission (ERC).

For the local oil industry, industry, companies form a consortium to explore certain areas due to high cost of exploration. Competition arises when 2 or more parties bid for a single block offered by the government and have to come up with the best program for exploration. Oil companies with local presence in the Philippines include: Philodrill Corporation, PHINMA Energy, Forum Energy Philippines Corporation, Philex Petroleum Corporation, and Pitkin Petroleum Plc., among others. The Company formed consortiums with these companies in some Philippine service contracts.

Sources and Availability of Raw Materials and Names of Principal Suppliers
The Company is not into manufacturing and has no need for raw materials for its business.

Dependence on a single customer or few customers
For the MGPP, an Electricity Supply Agreement was signed with PHINMA, now AC Energy Philippines for a period of 20 years, wherein TransAsia will buy all of the energy exported for a fixed agreed price, re-priced every 5 years.

For the TSPP-1, consequent to the issuance of FIT COC in its favor, PSC entered into a REPA with the TransCo on April 6, 2016. Under the REPA, TransCo shall pay the FIT Rate of P8.69/kWh for all metered generation of PSC for a period of twenty (20) years from start of Commercial Operations.

For the oil liftings, these are sold to a single buyer, Mercuria Energy Trading SA.

Transaction with and/or Dependence on Related Parties
Please see "Letter "e" of Item 5 for discussion on Related Party transactions.

Summary of principal terms and expiration dates of all patents, trademarks, copy rights, licenses, franchises, concessions and royalty agreements
Aside from the Petroleum Properties and Renewable Energy Service Contracts discussed, there are no other patents, trademarks, copyrights, licenses, franchises, concessions, and royalty agreements entered into by the Group as of December 31, 2019 and 2018.

Need for Government approvals of Principal Products
Oil industry in the Philippines is regulated by the policies and rules and regulations provided by government agencies like the Departments of Energy, Finance and Environment and Natural Resources. Moreover, generation and sale of electricity need prior approval from the Energy Regulatory Commission.

Effect of existing or probable governmental regulations and Costs and Effects of Compliance with Environmental Laws
For the Renewable Energy Project, the Company conducted extensive studies to determine the environmental impact and possible mitigating actions to reduce, if not eliminate, potential threats to the environment connected with the conduct of geothermal, wind, and solar operations. Moreover, active coordination and consultation with the Department of Environment and Natural Resources (DENR) local government units (LGUs), including other stakeholders, is constantly observed. More importantly, proactive and self-monitoring activities are being observed by the respective Environmental Officers for each project in compliance with existing environmental laws, rules, and regulations.

The Environmental Compliance Certificate (ECC) for the MGPP was issued by the DENR on August 10, 2010 for the development of up to 42 MW of geothermal power project; the ECC for the NWPP was issued on June 10, 2012 for the development of up to 50 MW of wind energy project; and the ECC for the TSPP was issued on August 4, 2015 for the development of 50 MW solar power project, which was later amended on October 12, 2017 to cover up to 98 MW of solar power project development.

All operating companies have shown outstanding performance in ensuring environment-friendly business operations. These are shown in the environmental programs and projects of the respective companies with the following components: Site Restoration and Protection, Conduct of Annual Environmental Activities, Compliance with Regulatory Agencies and Monitoring Mechanism and Community Involvement and Participation.

It is also worth noting that the operating companies have received the following citations:

PetroWind:

- "Environmental Upgrade of the Year Award" from Asian Power Awards given in November 2017 in Bangkok, Thailand.
- Letter of Commendation from DENR PENRO Aklan in January 2017 for Outstanding Environmental Compliance through Implementation of Slope Stabilization Measures.

PetroSolar

- PEZA Outstanding Community Awards for 2016 & 2017" from the Philippine Economic Zone Authority
- "Success Story Exemplary Awards" for the Solar Sharing Project from 38th PCAPI Environmental Awards given on May 9, 2018
- DENR NCR Awards and Department of Education-Tarlac Certificate given last November 2017

Amount spent on research and development activities and its percentage to revenues

A. Renewable Energy Research and Development
   In 2019, the group spent additional P701.44 million (Note 10 of the Consolidated AFS) for the completion of the construction of the TSPP2 and construction of substation for the MGPP.

B. Oil Exploration and development – bulk of the additions to the Deferred Oil Exploration (Note 10 of the Consolidated AFS) pertains to PERC's share share in the first well of the drilling program.

Total Number of Employees and Number of Full-Time Employees
As of December 31, 2019, there were 142 regular employees of the Group. The Group may hire employees in the next twelve (12) months due to increased volume of business, specifically for its renewable energy business.

Below is the break-down of regular employees of PERC and its subsidiaries

PetroEnergy	15
PetroGreen	32
Maibarara	86
PetroSolar	5
Total Employees	138

Risk Factors
Political, Economic and Legal Risks in the Philippines

The Philippines has, from time to time, experienced military unrest, mass demonstrations, and similar occurrences, which have led to political instability. The country has also experienced periods of slow growth, high inflation and significant depreciation of the Peso. The regional economic crisis which started in 1997 negatively affected the Philippine economy resulting in the depreciation of the Peso, higher interest rates, increased unemployment, greater volatility and lower value of the stock market, lower credit rating of the country and the reduction of the country's foreign currency reserves. There has also been growing concerns about the unrestrained judicial intervention in major infrastructure project of the government.

There is no assurance that the political environment in the Philippines will be stable and that current or future governments will adopt economic policies conducive to sustained economic growth.

Continuous and peaceful operations in the project areas are dependent on the Company's good relationships with the host local government units. The Company's renewable energy projects are located in three provinces: Batangas for its geothermal energy project; Tarlac, for its solar power project; and Aklan for the wind energy project. Currently, a new solar service contract has been secured in Puerto Princesa City. The local governments in these areas-- from the provincial, municipal and barangay levels, including the Palawan Council for Sustainable Development (PCSD) -- are supportive of these projects. Local government endorsements and resolutions have therefore not been a problem in these areas. The Company's oil projects, on the other hand are located in Palawan and Visayas. Since these are oil exploration projects, getting local government support have been challenging.

To ensure that host local government units give their support and to mitigate the risk of their withdrawal of support of the Company's projects, the Company invests in corporate social responsibility projects (CSR). These CSR projects are geared towards providing long term and sustainable development to the communities within the host local government units, particularly in the areas of health, education, and livelihood.

Political, Economic and Legal Risks in Gabon

Despite its internal problems, the State of Gabon is said to be politically stable by African standards. Gabon was led by President Omar Bongo, the continent's second longest-serving head of state, who has been in power since 1967 until his death in 2009. Through an election held soon after, his son, Ali-Ben Bongo Ondimba, succeeded him as President. Its political stability and ample natural resources have helped make Gabon a wealthy nation compared to the rest of Sub-Saharan Africa. It must be noted however that Gabon's wealth is not distributed equitably, and almost half of the population lives below the poverty line.

Gabon held a presidential election in August 2016, and the change in administration also introduced new fiscal terms that could likewise change and negatively impact the Company's business. A new Hydrocarbon Law, which took effect since 2014, introduces new fiscal terms for all upstream operators – which include increased government shares and royalties, decreased cost recovery, and the imposition of 35.0% income tax on profit oil – all of which would significantly work in favor of the Gabonese Government. The Consortium was, however, able to secure favorable concessions from the Gabonese Government, like the non-imposition of the 35% income tax on profit oil, which has now been permanently lifted for all upstream oil operators.

The oil industry is the key to Gabon's economy although the government is trying to distance itself from oil dependence and focus on non-oil businesses such as forestry products due to concerns over the life of the oil reserves.

The general political situation in and the state of economy of Gabon may thus influence the growth and profitability of the Company. Any future political or economic instability in Gabon may have a negative effect on the financial results of the Company.

Furthermore, the continuity of the Gabon Operations is dependent on the validity of the permits and licenses issued the Gabon Consortium. A stable regulatory environment that would allow unhampered operations in Gabon is crucial to the Company's continuous profitability.

Technical Risk
The petroleum exploration industry is a high risk, capital intensive and highly speculative industry. Risks in upstream petroleum exploration include 1) prospectivity of the concession area in terms of actually finding oil in commercial quantity, 2) varying oil prices and project economics, 3) joint venture structuring and key personnel management, among others. Finding oil in commercial quantity is highly dependent on appropriate geologic conditions for oil to accumulate, and be able to be extracted by drilling. Once commercial oil is found, one has to make capital expenditures in terms of field appraisal (determining the extent of the reserves) for proper field development. The Company mitigates this high degree of technical risk through the use of advanced and sophisticated tools, engagement of experienced consultants, and constant intensive discussion and information-sharing with joint venture partners.

From late 2016 onwards, much of the discussions of the consortium has been over the economic life of the Etame Marin complex. To date, the consortium has already recovered 50% of the estimated ultimate recoverable reserves, which means that production from the Gamba sand reservoir will soon start to decline. The planned future drillings in the area are mostly from the deeper Dentale sands. These sands are not as well characterized as the Gamba, thus, putting uncertainty in its production. Two (2) wells are currently producing from these sands.

Moreover, there is not much area to produce the Gamba from within the Etame Marin permit as some acreage has been relinquished to the government in 2012. There is also the current issue on production of sour gas (hydrogen sulfide gas) within the Gamba sands in the northern Ebouri production sector. Souring usually happens when extraction of oil has already reached deeper in the reservoir.
Souring of wells is a concern which may extend further to the other production fields as extraction continues. Currently, all wells that turned sour are kept shut since the facilities are not designed to handle this corrosive oil. Production from these sour wells may be realized either thru installation of processing platforms or re-installation of sour-resistant pipes at the surface facilities. Both options entail high costs.

These risks are key considerations for the Consortium's on-going studies and discussions for the Integrated Field Development Plan (IFDP) for the remainder of the field life. The IFDP aims to 1) augment long-term production by strategic drilling program/s to near-field areas and deeper targets, 2) address the risk of souring by evaluating options for crude sweetening, and 3) optimize the crude handling capacity for more profitable crude sales.

Operational Risk
The production of crude oil may involve many risks such as breakdown of equipment, unexpected levels of output or efficiency, natural disasters, and the need to comply with further directions of the relevant government authority. Moreover, like most oil discovery areas, there are concerns over how long these reserves will last. Any of the foregoing circumstances could significantly reduce revenues or increase the cost of operating the contract area.

As the field matures, the existing wells age and become more prone to mechanical fatigue and failures. In case these wells fail, the Consortium conducts workover operations on these wells to repair these damages and restore lost crude production. These are budgeted and conducted at regular year intervals in anticipation of potential or unexpected failures for the existing wells.

The Consortium entered into a crude sales agreement with Mercuria Energy Trading SA as a single buyer and committed to buy a minimum of 300,000 bbls per lifting based on a pricing scheme that is benched mark on Dated Brent. With this type of agreement, the Consortium will be assured of its crude oil being purchased at a fixed pricing scheme. Aside from this, the Consortium also plans to balance its operating expenses and to increase oil production to ensure that revenues do not drop drastically as a result of low oil prices.

The Consortium is currently examining the most optimal drilling program to ensure maximum recoverable oil, while ensuring positive returns for the consortium members. This includes an optimal drilling program in which the Consortium could further extract as much of the Gamba and Dentale reservoirs and address the sour oil from the affected wells while keeping capital expenditures and operating expenses at manageable levels to hope for positive returns. These are all heavily dependent on the global oil price trends. The Consortium is hoping that prices will rise up to almost US$100.00/bbl in order to make the Integrated Field Development Plan technically and economically feasible for the Gabonese Government.

Historically, the world-wide crude oil price has been volatile and may continue to be so in the future. The extreme effect of this volatility has been felt recently with the COVID-19 pandemic among other reasons, slowing down world economies and the global demand for crude oil. Oil price declined significantly in early March 2020, ending at approximately US$19/bbl for Brent crude as of March 31, 2020 as a result of market concerns about the ability of OPEC and Russia to agree on a perceived need to implement further production cuts in response to weaker worldwide demand. While OPEC and Russia were able to reach an agreement to cut production in April 2020, crude oil prices continued to decline below US$20/bbl for Brent Crude as a result of the adverse economic effects caused by COVID-19 (*Source: Page 36 of VAALCO's 1st Quarter 2020 Report*). In response to the COVID-19 outbreak and the current pricing environment, VAALCO has taken mitigating measures including the implementation of cost cutting measures with vendors and sharing certain costs, such as shipping vessels, helicopter, and personnel with other operators in the region (*Source: VAALCO 1st Quarter 2020 Announcement*)

Risk of Venturing into Renewable Energy Projects
The following risks on the Group's ventures in geothermal, solar, and wind energy development may have significant effect in the Group's business, financial condition, and results of operations:

- Offtake risks or market risks;
- Collection risks from offtaker and the FIT-Allowance Administrator;
- breakdown or failure of power generation equipment, steam supply equipment, transmission lines, pipelines or other necessary equipment or processes, leading to unplanned outages and other operational issues;
- flaws in the design of equipment or in the construction of an electric generation or steam supply plant;
- problems with the quality and quantity of geothermal and wind resources;
- material changes in law or in governmental permit requirements;
- operator error;
- performance below expected levels of output or efficiency;
- labor disputes, work stoppages, and other industrial actions by employees affecting the projects directly;
- pollution or environmental contamination affecting the operation of the plants;
- planned and unplanned power outages due to maintenance, expansion and refurbishment;
- the inability to obtain required governmental permits and approvals including the FIT allocation;
- opposition from local communities and special interest groups;
- social unrest and terrorism;
- engineering and environmental problems;
- construction and operational delays, or unanticipated cost overruns;
- force majeure and other catastrophic events such as fires, explosions, earthquakes, floods and acts of terrorism and war that could result in forced outages, personal injury, loss of life, severe damage or destruction of a plants and suspension of operations;
- Grid failure, and
- Denial of Land Conversion Application with the Department of Agrarian Reform.

The Group cannot assure that future occurrences of any of the events listed above or any other events of a similar or dissimilar nature would not significantly decrease or eliminate the expected revenues from any of its power or steam generating assets, or significantly increase the costs of operating any such assets.
The Group avoids or mitigates the operational risks through proper maintenance of machinery and equipment and by making sure that Operations and Maintenance (O&M) contracts with competent third-party service providers are always active and effective. The Group also ensures that the operating units would hire competent personnel. Design flaws are addressed by professional indemnity insurances that could cover losses from the same. Constant communication with regulators and maintenance of good relations with them help in planning ahead for any potential change in regulations or regulatory requirements. For the social aspects of the projects, the Group maintains a good Corporate Social Responsibility Program, with focus on health, education and livelihood programs, thus helping in achieving host community acceptance, and reduction of social unrest and terrorism. The Group also ensures that the operating units are adequately covered by sabotage and terrorism insurance policies.

Foreign Currency Risk
The revenues of PetroEnergy are predominantly denominated in U.S. Dollars. However, the obligation and expenses of the local areas which do not contribute revenues to the Company are denominated in Philippine Peso. In addition, a substantial portion of the PERC's future capital expenditures in Gabon are denominated in currencies other than the Peso. During the last decade, the Philippine economy has from time to time experienced instances of devaluation of the Peso and limited availability of foreign exchange. Recurrence of these conditions may adversely affect the financial condition and results of operations of the Company. The Company does not normally hedge its foreign currency exposures as it believes that it has sufficient revenues in U.S. Dollar and/or Philippine Peso, as the case may be, to answer for corresponding obligations.

Equity Partnership Risk
The Company has been participating in various oil exploration and development activities in Gabon and the Philippines with other parties. The Company is currently engaged in a production sharing contract with an equity share of 2.525% covering the Etame discovery block in the Atlantic shelf along with its Gabon Consortium partners. Such equity partnership requires the sharing in costs and revenues from the sale of the Etame crude oil. This situation may involve special risks associated with the possibility that the equity partner (i) may have economic or business interests or goals that are inconsistent with those of the Company; (ii) take actions contrary to the interests of the Company; (iii) be unable or unwilling to fulfill its obligations under the production sharing contract or sales contract; or (iv) experience financial difficulties. These conflicts may adversely affect the Company's operations. To date, the Company has not experienced any significant problems with respect to its equity partners.

In the Philippines, the Company, through its subsidiary, PetroGreen, partnered with different foreign and local companies. For MGI, the Company (65.00% through PetroGreen) partnered with PHINMA (25.00%) (PHINMA was acquired by the AC Energy, Inc. and has been renamed to AC Energy Philippines, Inc. or "ACEPH") and PNOC RC (10.00%); in PetroWind, the Company (40.00% through PetroGreen) partnered with EEIPC (20.00%) and CapAsia ASEAN Wind Holdings Cooperatief U.A. (40.00%) (CapAsia was later acquired by BCPG Public Company Ltd. and renamed to BCPC Wind Cooperatief U.A.); and for PetroSolar, the Company (56.00%) partnered with EEIPC (44.00%). This situation may involve special risks associated with the possibility that the equity partner (i) may have economic or business interests or goals that are inconsistent with those of the Company; (ii) take actions contrary to the interests of the Company; (iii) be unable or unwilling to fulfill its obligations under the production sharing contract or sales contract; or (iv) experience financial difficulties. These conflicts may adversely affect the Company's operations. Further to these, the Company continues to evaluate joint venture or partnership opportunities.

Cooperation among the joint venture and consortium partners on business decisions is crucial to the sound operation and financial success of these joint venture companies. Although the Company believes it maintains good relationships with its partners, there is no assurance that these relationships will be sustained in the future or that problems will not develop. For example, the Company's joint venture partners may be unable or unwilling to fulfill their obligations, take actions contrary to its policies or objectives, or may experience financial difficulties. If any of these events occur, the businesses of these joint ventures could be severely disrupted, which could have a material adverse effect on PERC's business, financial condition and results of operations.

In order to avoid or mitigate these risks, PERC employs care and prudence in its partner selection. The backgrounds of would be partners are heavily scrutinized; attention is given in knowing the personalities behind the potential partners, their culture, and their industry reputation. The shareholders' agreements or joint venture agreements contain penalty provisions in case a partner refuses or fails to fulfill its obligations. There are likewise exit mechanisms that could be utilized in case the relations among partners become sour.

Risks Relating to Change in Regulations
The Group is compliant with the laws, rules and regulations in the Philippines and Gabon that enable it to legally operate or participate in the energy projects it has invested in. In the same manner, the relevant permits, endorsements, clearances applicable to the respective energy projects which the Group has invested in have either been secured or are currently being processed. These permits are based on present rules, regulations and laws of the Philippines and Gabon. There is a risk that the Philippines and Gabon would change any rule, regulation and law that may affect the Group's and its projects' existing permits. To mitigate this risk, the Group constantly monitors the policy direction of both the governments of the Philippines and Gabon in order to anticipate any change in regulation that may affect the Group and its projects.

Risks relating to the Environment
The Group's projects involve energy exploration, development and utilization, which entail putting up of infrastructure, erection and installation of equipment and facilities, extraction and utilization of natural resources –all of which may involve temporary disturbances to the environment. To minimize and mitigate the risks involved in these temporary disturbances,

the Group ensures that environmental risks (such as erosion and siltation) have been considered during the planning stage of the construction activities and thus the necessary mitigating measures and plans have been incorporated in the projects' environmental management plan. In the case of the NWPP, PetroWind installed slope protection measures to prevent erosion and degeneration of the land.

Risk from Natural Calamities

The Philippines is prone to natural calamities such as typhoons, floods, volcanic eruptions, earthquakes, mudslides, and droughts, and thus, the Company's operations and those of its subsidiaries and affiliates may be disrupted by the occurrence of such natural calamities, and could thereby materially and adversely affect the Company's and its subsidiaries' and affiliate's ability to generate revenues. There is no assurance that the insurance coverage maintained by the Company and its subsidiaries and affiliates would adequately compensate them for all damages and economic losses resulting from natural calamities including possible business interruptions. To mitigate this, insurance policies are regularly reviewed and updated as are necessary in accordance with industry standards. Furthermore, the Company and its subsidiaries and affiliates formulated emergency preparedness plans in order to lessen the impact of natural calamities to their respective operations.

Risk from the COVID-19 and Similar Pandemic

Manpower for operations may be affected due to state-imposed self-quarantine, partial lockdown, and curfew. To address this, the Company has devised an alternative working arrangement of work-from-home and skeletal workforce scheme for its employees. Business support units were equipped with appropriate protocols and digital tools to be able to support the operations unit and ensure unhampered business operations. Due to travel restrictions, scheduled power plant maintenance by third-party foreign suppliers may also be affected. In preparation for this, the Company has communicated with its Operations and Maintenance (O&M) providers to strengthen its remote support and provide contingencies. PERC has also ensured that the insurance coverage maintained for the Company, its subsidiaries and affiliates, would adequately compensate for any business interruptions. In addition, there is also the risk relating to compliance with regulatory permits and submissions due to changes in work schedule both in public and private sectors. As a response, PERC regularly monitors the advisories from relevant Government agencies to ensure that requirements are submitted on time.

Financial Risk Management Objectives and Policies

The Group's principal financial instruments include cash and cash equivalents, trading and investment securities (financial assets at FVPTL) and receivables. The main purpose of these financial instruments is to fund the Group's working capital requirements.

The Group manages and maintains its own portfolio of financial instruments in order to fund its own operations and capital expenditures. Inherent in using these financial instruments are the following risks on liquidity, market and credit.

Please refer to the 2019 Consolidated Audited Financial Statements, Note 26 for the discussion of main financial risks arising from the Group's financial instruments.

Capital Management

The primary objective of the Group's capital management is to ensure that it maintains a strong credit rating and healthy capital ratios in order to support its business and maximize shareholders' value.

The Group manages its capital structure and makes adjustments to it, in light of changes in economic conditions. To maintain or adjust the capital structure, the Group may increase its debt from creditors, adjust the dividend payment to shareholders or issue new shares.

Based on the Group's assessment, the capital management objectives were met in 2019 and 2018.

There were no changes made in the objectives, policies or processes for the years ended December 31, 2019 and 2018, respectively.

Please refer to the 2019 Consolidated Audited Financial Statements, Note 19 for the discussion the Group's Capital Management.

Item 2 – Properties

PERC owns a 714-square meter office unit located at 7th Floor, JMT Building, ADB Avenue, Ortigas Center, Pasig City. The title of the Company over the property is clean and free from any lien and encumbrance.

In April 2012, Maibarara entered into a 25-year Land Lease Agreement (LLA) for its steamfield and access road with Power Sector Assets and Liabilities Management Corp. (PSALM) and paid upfront fees for the entire term.

Also, Maibarara has a US$0.760 million worth of purchased lot to be used as MGPP plant site, access road and transmission line.

The Group may acquire additional property in the next twelve (12) months due to the increased volume of business, specifically for its renewable energy business.

The principal properties of the Group consist of various oil areas located in the Philippines and in Gabon, and renewable energy service contracts, as follows:

Petroleum Service Contracts (SC)			**Participating Interest**
EPSC	–	Gabon, West Africa	2.525%
SC 6A	–	Octon, Northwest Palawan	16.670%
SC 14C2	–	West Linapacan	4.137%
SC 75	–	Offshore NW Palawan	15.000%

Wind Energy Service Contract (WESC)	**Participating Interest**
WESC No. 2009-09-002 – (Nabas-Malay-Buruanga, Aklan)	40% (through PetroGreen)

Geothermal Renewable Energy Service Contract (GRESC)	**Participating Interest**
GRESC No. 2010-02-012 – (Laguna and Batangas)	65% (through PetroGreen)

Solar Energy Service Contract (SESC)	**Participating Interest**
SESC No. 2015-03-115 – (Tarlac)	56% (through PetroGreen)

Solar Energy Service Contract (SESC)	**Participating Interest**
SESC No. 2017-01-360 – (Puerto Princesa)	100% (through PetroGreen)

For details on the above Production Sharing Contact in Gabon and Service Contracts in the Philippines, please see discussion on *“Business of Issuer.”*

Item 3 - Legal Proceedings

MGI has outstanding input VAT claims for refund with the BIR, Court of Tax Appeals (CTA) and Supreme Court (SC). As of December 31, 2019 and 2018, the outstanding input VAT claims which are still pending with the CTA and SC amounted to ₱126.96 million.

Aside from the discussions above, The Group is neither a party to, nor is involved in, any litigation that affects or will affect its interests. It has neither any knowledge of any litigation, present or contemplated, against the Company.

There are no other pending legal proceedings to which the Group is a party or which any of its property is subject to.

Item 4 - Submission of Matters to a Vote of Security Holders

There were no matters that were submitted to a vote of security holders during the fourth quarter of the fiscal year covered by this report.

PART II - OPERATIONAL AND FINANCIAL INFORMATION

Item 5 - Market for Registrant’s Common Equity and Related Stockholder Matters

A) Market Price of and Dividends on Registrant’s Common Equity and Related Stockholder Matters

1. Market Information

Particulars	1st Quarter		2nd Quarter		3rd Quarter		4th Quarter		1st Quarter 2020	2nd Quarter 2020	22-Jul-20
	2019	2018	2019	2018	2019	2018	2019	2018			
Par value	Php1.00	Php1.00	Php1.00	Php1.00	Php1.00	Php1.00	Php1.00	Php1.00	Php1.00	Php1.00	Php1.00
High	Php4.24	Php6.10	Php4.95	Php5.30	Php4.90	Php4.32	Php4.45	Php4.27	Php4.28	Php3.29	Php3.45
Low	Php3.52	Php4.45	Php4.15	Php4.09	Php4.07	Php3.62	Php3.78	Php3.50	Php2.50	Php2.02	Php3.30
Volume	13.49MM	36.58MM	11.21MM	9.88MM	3.53MM	4.76MM	12.06MM	10.51MM	1.49MM	3.75MM	79,000 shs.

2. Holders

As of June 30, 2020, the Company has 1,999 stockholders.
Hereunder is the list of the top 20 Stockholders (as of June 30, 2020).

	STOCKHOLDERS	SHARES	PERCENTAGE
1	PCD Nominee Corporation	527,177,198	92.70%
2	House of Investments, Inc.	21,805,861	3.83%
3	Pan Malayan Management and Investment Corporation	5,377,079	0.95%
4	Hydee Management & Resources Corporation	1,880,779	0.33%
5	Baguyo, Dennis G.	1,698,888	0.30%
6	PCD Nominee Corporation (NF)	687,025	0.12%
7	Yan, Lucio	355,468	0.06%
8	Ong Pac, Sally C.	327,030	0.06%
9	R. P. Land Development Corporation	309,078	0.05%
10	Tan, Juanita Uy	300,781	0.05%
11	David Go Securities Corporation	277,949	0.05%
12	Ley, Fely	266,600	0.05%
13	Chen Hua Bi	266,599	0.05%
14	Mendoza, Alberto &/or Mendoza, Jeanie C.	251,492	0.04%
15	Phil. Asia Equity Sec., Inc. U-055	159,959	0.03%
16	Orientrade Securities, Inc.	121,500	0.02%
17	Uy-tiocco, George	106,640	0.02%
18	Roque, Gonzalo Jr. &/or Roque, Eric	90,234	0.02%
19	Chan, Juanito &/or Co, Susana	88,865	0.02%
20	EBC Securities Corporation	73,405	0.01%
	Sub-Total	**561,622,430**	**98.75%**
	Others (Various Stockholders)	7,089,412	1.25%
	Grand Total	**568,711,842**	**100.00%**

Minimum Public Ownership
The Company is compliant with the required Minimum Public Ownership of at least 10% of the total issued and outstanding capital stock, as mandated by Section 3, Article XVIII of the Continuing Listing Requirements of the Listing and Disclosure Rules. As of June 30, 2020, the Company’s public float was 38.15%.

3. **Dividends**

In accordance with the Corporation Code of the Philippines, the Company intends to declare dividends (either in cash or stock or both) in the future. The shareholders of the Company are entitled to receive a proportionate share in cash dividends that may be declared by the Board of Directors out of surplus profits derived from the Company's operations. The same right exists with respect to a stock dividend, the declaration of which is subject to the approval of stockholders representing at least two-thirds (2/3) of the outstanding shares entitled to vote. The amount will depend on the Company's profits and its capital expenditure and investment requirements at the relevant time.

Dividend declaration in two (2) most recent years

Date of Declaration	Dividends per Share		Record Date	Payment Date
	Cash	Stock		
July 04, 2013	5%		July 25, 2013	August 20, 2013
July 26, 2018	5%		August 24, 2018	September 20, 2018

4. **Recent Sale of Unregistered Securities**

PERC requested for confirmation of exemption transaction filed on September 26, 2017 and was approved on December 8, 2017.

The provision of Section 10.1 of the Code under which exemption is based:

Section 10.1 (e) The sale of capital stock of a corporation to its own stockholders exclusively, where no commission or other remuneration is paid or given directly or indirectly in connection with the sale of such capital stock.

Section 10.1 (i) Subscription for shares of the capital stock of a corporation prior to the incorporation thereof or in pursuance of an increase in its authorized capital stock under the Corporation Code, when no expense is incurred, or no commission, compensation or remuneration is paid or given in connection with the sale of disposition of such securities, and only when the purpose for soliciting, giving or taking of such subscription is to comply with the requirement of such law as to the percentage of the capital stock of a corporation which should be subscribed before it can be registered and duly incorporated, or its authorized capital increased.

Section 10.1 (l) The sale of securities to any number of qualified buyers.

The Company filed its application for listing and trading on September 29, 2017 and was approved by the Philippines Stock Exchange (PSE) on December 13, 2017. The Company offered 157,975,512 common shares to all existing eligible shareholders of record as of January 12, 2018 (Ex-date January 9, 2018), at a ratio of one (1) Rights Share for every two and six-tenths (2.6) common shares held at an Offer Price of P4.80 per share. The Offer Period started on January 22, 2018 and ended on January 26, 2018. The Stock Rights Offering was fully subscribed and fully paid-up, and has been listed at the PSE on February 2, 2018.

B) Description of Registrant`s Securities

1. Common Stock

   The details of the Company's capital stock as of May 31, 2020 are as follows:

Authorized – 700 Million shares at P1.00 par value		
Issued and Outstanding shares	568,711,842	$12,500,454

2. Debt Securities - Not Applicable
3. Stock Options - Not Applicable
4. Securities Subject to Redemption call – Not Applicable
5. Warrants – Not applicable
6. Market Information for Securities Other than Common Equity – Not Applicable
7. Other Securities – Not Applicable

Item 6 - Management's Discussion and Analysis or Plan of Operation

1. Management's Discussion and Analysis (Amounts are in Philippine Peso (P))

a. Consolidated Financial Position (As of December 31, 2019 and 2018)

	As of December 31 (Audited) 2019	2018	% Change	% in Total Assets
ASSETS				
Cash and cash equivalents	P1,066,698,077	P1,188,110,520	-10.22%	7.98%
Receivables	332,889,623	355,453,001	-6.35%	2.49%
Financial assets at fair value through profit and loss (FVTPL)	8,240,096	8,482,706	-2.86%	0.06%
Other current assets	739,069,787	770,894,442	-4.13%	5.53%
Property and equipment-net	8,536,605,048	7,937,424,612	7.55%	63.88%
Deferred oil exploration cost	192,958,190	230,328,188	-16.22%	1.44%
Investment in a joint venture	1,563,732,303	1,526,687,692	2.43%	11.70%
Right of use of asset	403,394,701	-	100.00%	3.02%
Deferred tax assets-net	12,623,992	10,493,156	20.31%	0.09%
Investment properties-net	1,611,533	1,611,533	0.00%	0.01%
Other noncurrent assets	506,399,446	710,153,803	-28.69%	3.79%
TOTAl ASSETS	**P13,364,222,796**	**P12,739,639,653**	4.90%	100.00%
LIABILITIES AND EQUITY				
Accounts payable and accrued expenses	343,716,074	318,226,505	8.01%	2.57%
Current portion of loans payable	1,197,555,427	731,283,710	63.76%	8.96%
Lease Liability-current	18,974,634	-	100.00%	0.14%
Income tax payable	4,019,134	5,709,928	-29.61%	0.03%
Loans payable - net of current portion	4,102,283,436	4,941,630,391	-16.99%	30.70%
Lease Liability-non-current	318,854,915	-	100.00%	2.39%
Asset retirement obligation	90,621,021	63,156,679	43.49%	0.68%
Other noncurrent liability	22,388,139	32,513,365	-31.14%	0.17%
TOTAL LIABILITIES	**6,098,412,780**	**6,092,520,578**	0.10%	45.63%
EQUITY				
Attributable to equity holders of the Parent Company	4,927,470,764	4,638,822,203	6.22%	36.87%
Non-controlling interest	2,338,339,252	2,008,296,872	16.43%	17.50%
TOTAL EQUITY	**7,265,810,016**	**6,647,119,075**	9.31%	54.37%
TOTAL LIABILITIES AND EQUITY	**P13,364,222,796**	**P12,739,639,653**	4.90%	100.00%

Total assets amounted to P13.364 billion and P12.740 billion as of December 31, 2019 and December 31, 2018, respectively.

Cash and cash equivalents consist of cash on hand, cash in banks and money market placements with original maturities of not more than three months. The 10.22% net decrease from P1.188 billion as of December 31, 2018 to P1.067 billion as of December 31, 2019 is mainly due to the following:

- Instalment payment of principal loans and funding of the debt reserve accounts;
- Purchase of lot for MGPP's substation;
- Lower revenue collection from the MGPP resulting from repricing of the electricity price; and
- Completion of the TSPP2 development

These are partially offset by the continuous cash inflows from operations of the Group.

The **Receivables** account mainly consists of receivables from electricity sales and lifting/sales of crude oil revenue. The 6.35% decline is mainly due to collection from Transco as a result of the accelerated receivable turn-over and the repricing of electricity price of MGPP.

Financial assets at fair value through profit and loss (FVPL) amounted to P8.240 million and P8.483 million as of December 31, 2019 and 2018, respectively. The 2.86% net decrease is due to net downward movement of the market prices of the Company's investments in stocks traded in the Philippine Stock Exchange (PSE).

Prepaid expenses and other current assets consist of restricted cash, supplies inventory, prepaid expenses, crude oil inventory and other current assets. The bulk of the 4.13% decrease from P770.894 million to P739.07 million is mainly due to amortization of prepayments.

Property, plant and equipment (PPE) amounted to P8.537 billion as of December 31, 2019 and P7.937 billion as of December 31, 2018. The 7.55% net increase is mainly due to the completion of the TSPP2 and purchase of lot for MGPP's substation. This is net of the continuous depreciation of the Renewable Energy Power Plants and depletion of the oil assets.

Deferred oil exploration cost decreased by 16.22% resulting from the reclassification of the signature bonus paid to the Gabonese Government for the renewal of the Production Sharing Contract – Etame in September 2018 to other non-current assets – intangible assets.

Investment in a joint venture refers to the remaining 40.00% shareholdings in PWEI. The 2.43% net increase from P1.527 billion to P1.564 million mainly pertains to the Group's share in net income generated by PWEI during the period, net of dividend income.

Right of use of asset and lease liability – this resulted from the first time adoption of the new PFRS 16 – leases (Please refer to note 13 of the 2019 Consolidated AFS)

The Investment properties account remains the same as of December 31, 2019.

Deferred tax assets – net occurs due to timing differences in recognizing temporary deductible expenses and temporary taxable revenues such as accrued profit share, accretion expenses, accrued retirement liability, provision for probable losses, unrealized gains or losses and change in crude oil inventory. As of December 31, 2019 and December 31, 2018, this amounted to P12.624 million and P10.493 million, respectively.

Other non-current assets amounted to P506.399 million and P710.153 million as of December 31, 2019 and December 31, 2018, respectively. The 28.69% net decrease is mainly due to the following:

- Recoupment of advances to contractors for the completion of the development of TSPP2 and
- Derecognition of MGI's prepaid rent as a result of the adaptation of the PFRS 16 (Please refer to Note 13 of the 2019 Consolidated AFS).

Accounts payable and accrued expenses amounted to P343.716 million and P318.227 million as of December 31, 2019 and December 31, 2018, respectively. The 8.01% increase mainly pertains to higher accruals made during the year.

Current portion of loan payable as of December 31, 2019 amounted to P1.198 billion and P731.284 million as of December 31, 2018. The 63.76% increase is mainly due to reclassification of nearly maturing loans.

The bulk of the Income tax payable pertains to PSC's outstanding tax payable - 5.00% provision for income tax under the PEZA rules. For MGPP, no income tax was computed because it is under the Income tax Holiday, as part of its incentives under RE Law.

Loans payable – net of current portion amounted to P4.102 billion and P4.942 billion as of December 31, 2019 and December 31, 2018, respectively. The 16.99% net decrease is mainly due to the scheduled instalment payment made during the period and reclassification of the nearly maturing loan to loans payable – current account.

Asset retirement obligation amounted to P90.621 million and P63.157 million as of December 31, 2019 and as of December 31, 2018, respectively. The 43.49% increase in this account resulted from changes in estimates and contributions made during the period.

Other non-current liabilities pertains to accrued rent payable arising from the application of straight line amortization of operating lease and accrued retirement liability. The 31.14% net decrease mainly pertains to the derecognition of the set-up of rent levelization of PSOC's land lease resulting from the adaptation of the PFRS 16.

Equity attributable to equity holders of the Parent Company amounted to P4.927 million or P8.66 book value per share compared to P4.639 billion or P8.16 book value per share as of December 31, 2018. The increase is mainly due to continuous income generation from the Renewable Energy Operations.

Non-controlling interest (NCI) pertains to the following:

- 10% share of EEI-PC in PetroGreen;
- 25% share of Trans-Asia, the 10% share of PNOC-RC, and 10% of the 65% share of EEI-PC (indirect) in MGI;
- 44% share of EEI-PC (direct) and 10% of 56% share (indirect) in PSC;

Non-controlling interest increased by 16.43% from P2.008 billion to P2.338 billion due to the higher net income in the RE projects, and additional equity infusion.

b. Consolidated Results of Operation (As of December 31, 2019, 2018 and 2017)

	Years Ended December 31 (Audited)			% Change 2019 vs. 2018	% in Total Revenues 2019
	2019	**2018**	**2017**		
REVENUES					
Electricity sales	P1,771,107,457	P1,725,156,936	P1,454,160,126	2.66%	83.46%
Oil revenues	351,057,274	436,971,279	328,188,038	-19.66%	16.54%
	2,122,164,731	2,162,128,215	1,782,348,164	-1.85%	100.00%
COST OF SALES					
Cost of electricity sales	805,694,582	721,184,272	599,993,624	11.72%	37.97%
Oil production	221,259,356	242,695,131	206,071,255	-8.83%	10.43%
Depletion	55,845,199	81,096,112	100,126,378	-31.14%	2.63%
Change in crude oil inventory	(2,371,818)	22,803,652	-	100.00%	-0.11%
	1,080,427,319	1,067,779,167	906,191,257	1.18%	50.91%
GROSS INCOME	1,041,737,412	1,094,349,048	876,156,907	-4.81%	49.09%
GENERAL AND ADMINISTRATIVE	223,213,616	217,463,499	**146,616,872**	2.64%	10.52%
OTHER INCOME (CHARGES) - net					
Share in net income (loss) of a joint venture	97,552,085	118,849,158	75,447,359	-17.92%	4.60%
Interest income	44,025,392	43,860,614	18,768,841	0.38%	2.07%
Net foreign exchange gains (losses)	(7,232,114)	6,070,411	(2,390,612)	-219.14%	-0.34%
Net gain on fair value changes on financial assets at FVPL	(242,610)	(575,624)	916,183	-57.85%	-0.01%
Interest expense	(409,690,469)	(392,418,601)	(357,577,576)	4.40%	-19.31%
Impairment reversal (loss)	-	54,317,979	(97,999,403)	-100.00%	0.00%
Accretion expense	(4,505,825)	(4,309,762)	(3,353,344)	4.55%	-0.21%
Miscellaneous income	7,682,215	10,396,043	6,112,523	-26.10%	0.36%
Gain on derivatives	-	-		0.00%	0.00%
	(272,411,326)	(163,809,782)	(360,076,029)	66.30%	-12.84%
NET INCOME BEFORE INCOME TAX	546,112,470	713,075,767	369,464,006	-23.41%	25.73%
Provision for (benefit from) income tax	12,179,814	18,162,480	(57,069,487)	-32.94%	0.57%
NET INCOME	**P533,932,656**	**P694,913,287**	**P426,533,493**	-23.17%	25.16%
NET INCOME ATTRIBUTABLE TO:					
Equity holders of the Parent Company	292,835,761	421,257,530	191,184,064	-30.49%	13.80%
Minority interest	241,096,895	273,655,757	235,349,429	-11.90%	11.36%
NET INCOME	**P533,932,656**	**P694,913,287**	**P426,533,493**	-23.17%	25.16%
Basic/Diluted Earnings Per Share (EPS)	P0.515	P0.741	P0.465		

Note: Differences in amounts are due to rounding off.

The Group generated a consolidated net income amounting to P533.932 million and P694.913 million as of December 31, 2019 and 2018, respectively, representing a 23.17% decline.

The Group generated consolidated net income attributable to equity holders of the Parent Company amounting to P292.836 million or P0.515 earnings per share as of December 31, 2019 and P421.258 million or P0.741 earnings per share as of December 31, 2018.

The main drivers of the decline in the bottom-line figures are:

- Repricing of MGI's electricity sales agreement in middle of the year.
- lower share in net income in PWEI due to lower wind speeds; and
- lower income from oil operations due to lower volumes and lower crude prices

Revenues:
Electricity sales refer to the electricity power generated by MGPP and TSPP. Despite the repricing of MGI's ESA, electricity sales revenues have been maintained, because of the full year operations of MGPP-2 in 2019 and entry of the TSPP-2.

Oil revenues likewise decreased by 19.66% from P436.971 million as of December 31, 2018 to P351.057 million as of December 31, 2019. The decrease is mainly due to lower crude lifting at lower oil prices of 4.6MMBO at average of $64.94/bbl. in 2019 as compared to 5.34 MMBO at average price of $70.10/bbl in 2018.

Costs and Expenses:

Costs of electricity sales pertain to the direct costs of generating electricity power including operating and maintenance costs (O&M) of power plant and fluid collection and reinjection system (FCRS), depreciation, and other costs directly attributed to producing electricity. The 11.72% increase is mainly due to expenses relative to MGPP-2 that reflected a full year's depreciation and other costs in 2019, compared to only eight months of depreciation and other costs in 2018.
Cost of oil production decreased by 8.83% from P242.695 million as of December 31, 2018 to P221.259 million as of December 31, 2019 mainly due to lower expenses made during the period.

The 31.14% decline in depletion is due to increase in the reserves estimates and decline in production barrels.

General and administrative expenses, Other Income (Charges) and Provision For (Benefit From) Income Tax:

General and administrative expenses (G&A) slightly increased by 2.64% mainly due to higher expenses incurred during the period resulting from the Renewable Energy operations expansion.

Other income (charges) amounted to P(272.441) million and P(163.810) million as of December 31, 2019 and 2018, respectively. Below presents the itemized discussion of the changes in other income (charges) – net account.

- 17.92% decrease in share in net income of a joint venture due to lower net income of PWEI for the period resulting from low energy generation during the period;
- Interest income slightly increased by 0.38%;
- downturn in forex changes from gain of P6.070 million in 2018 to (P7.232) million in 2019 due to changes in the forex;
- lower losses from the fair value changes on financial assets at FVPL due to slight recovery of market prices of investments in stocks traded at the PSE;
- Bulk of the interest expense pertains to the interest due from loans. However, in 2019, this includes interest expense as a result of the first time adoption of the PFRS 16 – Leases, wherein the Group recognized the difference between the total undiscounted payment amount up to the lease term versus the net present value of the lease payments. This is amortized in time with the payment of the lease. This drives the 4.4% increase in this account.
- In 2018 there was also a reversal of impairment loss amounting to P54.318 million, as compared to 2019 wherein the Group did not recognize any reversal or additional impairment during the period.
- 4.55% increase in accretion expense mainly due to change in estimates; and
- 26.10% decrease in miscellaneous income mainly due to lower time-writing charges during the period.

Provision for (benefit from) income tax:
Provision for income tax current - pertains to PSC's outstanding tax payable - 5.00% provision for income tax under the PEZA rules. For MGPP, no income tax was computed because it is under the Income tax Holiday, as part of its incentives under RE Law.

Non-controlling interest (NCI) as of December 31, 2019 and 2018 pertains to the following:

- 10% share of EEI-PC in PetroGreen;
- 25% share of Trans-Asia, the 10% share of PNOC-RC, and 10% of the 65% share of EEI-PC (indirect) in Maibarara;
- 44% share of EEI-PC (direct) and 10% of 56% share (indirect) in to PetroSolar

c. Consolidated Financial Position (As of December 31, 2018 and 2017)

Total assets amounted to P12.740 billion and P11.958 billion as of December 31, 2018 and December 31, 2017, respectively.

Cash and cash equivalents consist of cash on hand, cash in banks and money market placements with original maturities of not more than three months. The 35.37% net increase from P1.004 billion as of December 31, 2017 to P1.359 billion as of December 31, 2018 is mainly due to the following:

- MGI's increase in collection from electricity sales as a result of the entry of its MGPP2 which started its commercial operations on April 30, 2018;
- PSC's increase in collection from Transco as a result of the accelerated receivable turnover;
- Proceeds from oil revenues; and
- Proceeds from deposits from future stock subscription for PSC's on-going construction for the TSPP2.

These are partially offset by the capital expenditures for the construction of the TSPP2 and working capital requirement of the Group.

Financial assets at fair value through profit and loss (FVPL) amounted to P8.483 million and P9.048 million as of December 31, 2018 and 2017, respectively. The 6.25% net decrease is due to net downward movement of the market prices of the Company's investments in stocks traded in the Philippine Stock Exchange (PSE).

The Receivables account mainly consists of receivables from electricity sales and lifting/sales of crude oil revenue. The 8.61% decline is mainly due to collection from Transco as a result of the accelerated receivable turn-over .

Prepaid expenses and other current assets consist of restricted cash, supplies inventory, prepaid expenses, crude oil inventory and other current assets. The bulk of the 129.03% increase from P261.855 million to P599.727 million is mainly due to the remaining unused amount as of December 31, 2018 from the SRO proceeds amounting to P303.67 million, which is put under escrow.

Property, plant and equipment (PPE) amounted to P7.937 billion and P8.129 billion as of December 31, 2018 and December 31, 2017, respectively. The 2.36% net decrease is mainly due to the continuous depreciation of the Renewable Energy Power Plants and depletion of the oil assets. The decline is partially offset by additions to the construction in progress account relative to the on-going construction of the TSPP2 and net reversal of impairment loss of the oil assets during the year.

Deferred oil exploration cost increased by 15.83% resulting from the signature bonus paid to the Gabonese Government for the renewal of the Production Sharing Contract – Etame in September 2018.

Investment in a joint venture refers to the remaining 40.00% shareholdings in PWEI. The 8.44% net increase from P1.408 billion to P1.527 billion mainly pertains to the Group's share in net income generated by PWEI during the period.

The change Investment properties account pertains to translation adjustment.

Deferred tax assets – net occurs due to timing differences in recognizing temporary deductible expenses and temporary taxable revenues such as accrued profit share, accretion expenses, accrued retirement liability, provision for probable losses, unrealized gains or losses and change in crude oil inventory. As of December 31, 2018 and December 31, 2017, this amounted to P10.493 million and P12.117 million.

Other non-current assets amounted to P710.153 million and P544.408 million as of December 31, 2018 and December 31, 2017, respectively. The 30.45% net increase is mainly due to the capital expenditures (down payment) for the on-going construction and development of the TSPP-2.

Accounts payable and accrued expenses amounted to P318.227 million and P284.522 million as of December 31, 2018 and December 31, 2017, respectively. The 11.85% increase mainly pertains to higher accruals made during the year.

Current portion of loan payable as of December 31, 2018 amounted to P731.284 million and P1.092 billion as of December 31, 2017. The 33.02% decrease is mainly due to settlement of loans during the period.

The bulk of the Income tax payable pertains to PSC's outstanding tax payable - 5.00% provision for income tax under the PEZA rules. For MGPP, no income tax was computed because it is under the Income tax Holiday, as part of its incentives under RE Law.

Loans payable – net of current portion amounted to P4.942 billion and P5.418 billion as of December 31, 2018 and December 31, 2017, respectively. The 8.79% net decrease is mainly due to the scheduled instalment payment made during the period.

Asset retirement obligation amounted to P63.157 million and P82.010 million as of December 31, 2018 and as of December 31, 2017, respectively. The 22.99% decrease in this account resulted from changes in estimates and contributions made during the period.

Other non-current liabilities pertains to accrued rent payable arising from the application of straight line amortization of operating lease and accrued retirement liability. The 13.72% net increase mainly pertains to the set-up of retirement funding of the subsidiaries and rent levelization of PSOC's land lease.

Equity attributable to equity holders of the Parent Company amounted to P4.639 billion or P8.16 book value per share as of December 31, 2018 as compared to P3.459 billion or P8.42 book value per share as of December 31, 2017.

Non-controlling interest (NCI) pertains to the following:
- 10% share of EEI-PC in PetroGreen;
- 25% share of Trans-Asia, the 10% share of PNOC-RC, and 10% of the 65% share of EEI-PC (indirect) in MGI;
- 44% share of EEI-PC (direct) and 10% of 56% share (indirect) in PSC;

Non-controlling interest increased by 26.27% from P1.590 billion to P2.008 billion due to the higher net income in the RE projects, and additional equity infusion..

d. Results of Operations (For the years ended December 31, 2018 and 2017)

The Group generated a consolidated net income amounting to P694.913 million and P426.533 million as of December 31, 2018 and 2017, respectively, representing a 62.92% growth.

The Group generated consolidated net income attributable to equity holders of the Parent Company amounting to P421.258 million or P0.741 earnings per share and P191.184 million or P0.466 earnings per share as of December 31, 2018 and 2017, respectively.

The main drivers of the significant improvement in the bottom-line figures are:
- Higher electricity generation due to the commercial operations of the MGPP2 on April 30, 2018;
- Increase in share in net income of a joint venture, PWEI as a result of its high net income due to high wind speed;
- Recovery of the crude oil price; and
- Net reversal of impairment loss (see Note 5 of the Consolidated AFS)

Revenues:
Electricity sales refer to the electricity power generated by MGPP and TSPP. The 18.64% increase from P1.454 billion in December 31, 2017 to P1.725 billion as of December 31, 2018 is mainly due to higher energy generated by MGI in line with the entry of its MGPP2 which commissioned on April 30, 2018.

Oil revenues likewise increased mainly due to the increase in crude oil prices from range of $45 - $64 per barrel in 2017 to range of $55 - $80 per barrel in 2018.

Costs and Expenses:

Costs of electricity sales pertain to the direct costs of generating electricity power including operating and maintenance costs (O&M) of power plant and fluid collection and reinjection system (FCRS), depreciation, and other costs directly attributed to producing electricity. The 20.20% increase is relative to the MGPP2 and 3 day minor maintenance shut-down of the MGPP.
Cost of oil production increased by 17.77% from P206.071 million as of December 31, 2017 to P242.695 million as of December 31, 2018 mainly due to higher well work-overs to address the downtimes and higher Opex relative to the processing of the PSC extension.

The 19.01% decline in depletion from is due to lower depletable cost resulting from the impairment of the Gabon assets in December 2016 and 2017.

General and administrative expenses, Other Income (Charges) and Provision For (Benefit From) Income Tax:

General and administrative expenses (G&A) increased by 48.32% due to the following:
- G&A related to the entry of the MGPP2;and
- Expensed incurred for the VAT refund and SRO undertaking

Other income (charges) amounted to P(163.810) million and P(360.076) million as of December 31, 2018 and 2017, respectively. Below presents the itemized discussion of the changes in other income (charges) – net account.

- 57.53% increase in share in net income of a joint venture due to higher net income of PWEI for the period resulting from high energy generation during the period;
- 133.69% net increase in interest income due to the interest income accrued from the outstanding receivable from TransCo for the electricity sales and higher interests from investment in Money Market Placements (MMP);
- Turnaround in forex changes from a loss of P2.390 million in 2017 to a gain of P6.070 million in 2018 due to positive changes in the forex;
- 162.83% downturn in fair value changes on financial assets at FVPL due to lower market price movements of its investments in stocks traded at the PSE;
- 8.74% increase in interest expense relative to loan for the MGPP2; and
- P54.318 million net reversal of impairment loss in 2018 as compared to P97.99 million impairment loss in 2017. (Please see Note 5 of the Consolidated AFS)
- 28.52% increase in accretion expense mainly due to change in estimates; and
- 10.27% increase in miscellaneous income mainly due to higher time-writing charges.

Provision for (benefit from) income tax:
Provision for income tax current - pertains to PSC's outstanding tax payable - 5.00% provision for income tax under the PEZA rules. For MGPP, no income tax was computed because it is under the Income tax Holiday, as part of its incentives under RE Law.

Net income attributable to equity holders of the Parent Company increased by 120.34% from P191.184 million in 2017 to P421.258 million in 2018 mainly due to the following:

- Higher electricity generation due to the commercial operations of the MGPP2 on April 30, 2018;
- Higher share in net income of a jointventure, PWEI as a result of its high net income due to high wind speed;
- Recovery of the crude oil price; and
- Net reversal of impairment loss

Non-controlling interest (NCI) as of December 31, 2018 and 2017 pertains to the following:

- 10% share of EEI-PC in PetroGreen;
- 25% share of Trans-Asia, the 10% share of PNOC-RC, and 10% of the 65% share of EEI-PC (indirect) in Maibarara;
- 44% share of EEI-PC (direct) and 10% of 56% share (indirect) in to PetroSolar;

Key Performance Indicators (please see attached "Schedule of Financial Soundness Indicators")

There are no events that will trigger direct or contingent financial obligations that is material to the group, including any default or acceleration of an obligation

There are no material off – balance sheet transactions, arrangements, obligations (including contingent obligations), and other relationships of the group with unconsolidated entities or other persons created during the period.

2. Plan of Operations for the next 12 months

Gabon, West Africa
Crude production will continue from the existing and newly-drilled wells, as the Gabon Consortium is currently firming up the most feasible Integrated Field Development Plan (IFDP) to extract the remaining recoverable oil volumes.

SC 6A – Octon, Northwest Palawan
Operator Philodrill will continue with the aforementioned Geological and Geophysical (G&G) works to define new leads to be further de-risked.

SC 14C2 - West Linapacan, Northwest Palawan
Operator Philodrill will conduct further G&G activities to validate the feasibility of extracting the remaining recoverable volumes in West Linapacan.

SC 75 - Offshore Northwest Palawan
The service contract is currently under Force Majeure. Once lifted, the Consortium will proceed to Subphase 2, with the conduct of a ~1,000 sq.km 3D seismic survey over the identified leads in SC 75.

Maibarara Geothermal Power Project
Power generation from both Maibarara -1 and Maibarara-2 will continue.

<u>Nabas Wind Power Project</u>
The plant will be in continuous operation from the 18 WTGs comprising the project's Phase 1.

<u>Tarlac Solar Power Project</u>
TSPP-1 and TSPP-2 will continue to supply electricity to the grid. Further, PSC aims to secure the ERC's approval for the TSPP-2's COC within the year.

<u>Puerto Princesa Solar Hybrid Power Project</u>
PGEC will participate in the 20-MW PALECO CSP within the year. In the event PALECO awards the PSA to PGEC, PGEC will construct the PPSHPP within one (1) year. The final investment decision to proceed with actual power plant construction depends on securing this PSA with PALECO.

<u>San Vicente Wind Hybrid Power Project</u>
PGEC will undertake the three-year pre-development stage starting 2020, consisting of: 1) Two-year wind measurement campaign, 2) LGU and regulatory permitting works, and 3) technical and economic feasibility works for a potential wind-hybrid system in San Vicente.

Material Commitments

Aside from the committed developments of the prospective projects, there are no other foreseen material commitments during the period.

<u>Discussion of Indicators of the Company's Level of Performance</u>

Productivity Program
For the electricity sales,

- the expansion of the TSPP (Phase 2) will increase the power generation from 50 MW to 70 MW;
- the development of the prospective projects will increase the Group's capacity and power generation

For oil revenues, the consortium of the Etame Marine completed the three-well drilling program, which was conducted in October 2019 to March 2020, this will contribute positively in maintaining and increasing overall production from ~11,000 barrels of oil per day (BOPD) to ~22,000 BOPD.

Receivable Management
The Group's receivables are mainly due from sale of electricity to PHINMA and Transco and sale of crude oil in Etame, Gabon through the Consortium's Operator. Revenues are recorded once sale are made. Payments are received every 30-45 days following each sale.

For electricity sales form TSPP and NWPP, the payment for the Actual FIT Revenue is sourced from the FIT-All Fund, specifically the Actual FIT Differential (FD) and the Actual Cost Recovery Revenue (ACRR). The FD is the difference between the Actual FIT Revenue and the ACRR and is collected from on-grid consumers as a uniform charge and applied to all billed kilowatt-hours. For FIT-Eligible RE Plants connected to the Wholesale Electricity Spot Market ("WESM"), the ACRR refers to the WESM proceeds remitted to the FIT-All Fund by the Independent Electricity Market Operator of the Philippines, Inc. ("IEMOP"), which took over the Philippine Electricity Market Corporation ("PEMC") as operator of the electricity spot market. PWEI and PSC regularly receive the both the ACRR and FD components on time, which is 45 days after billing date.

PetroWind and PetroSolar manage this risk through proper and meticulous allocation of funds, proper timing of expenditures, employment of cost-cutting measures, and sourcing short-term funding requirements from local banks and investment houses or from affiliated companies.

For the seventeen (17) years since oil production inception, there was no event that the buyer failed to remit the proceeds of the sale. However, the Group is willing to look for another buyer should there be some problem that may happen in the future.

Liquidity Management
Management of liquidity requires a flow and stock perspective. Constraint such as political environment, taxation, foreign exchange, interest rates and other environmental factors can impose significant restrictions on firms in management of their financial liquidity.

The Group considers the above factors and pays special attention to its cash flow management. The Company identifies all its cash requirements for a certain period and invests unrestricted funds to money market placements to maximize interest earnings.

The Group does not anticipate any cash flow or liquidity problems within the next twelve (12) months. The Group is not in default of any, note, loan, lease, or other indebtedness or financing arrangement requiring it to make payments.

Inventory Management
The only inventory is the crude oil produced in Gabon. The buyer lifts certain volume and pays the same in 30 days. The operator sees to it that crude oil inventory does not reach 800,000 barrels at any one time to avoid overflow and to generate revenues to cover production costs.

Cost Reduction Efforts
In order to reduce costs, the Group employs a total of one hundred thirty eight (138) employees with multi-task assignments.

The Company's general and administrative expense as of December 31, 2019 is equivalent to 10.52% of the total revenue.

Rate of Return of Each Stockholder
The Company has no existing dividend policy. However, the Company intends to declare dividends in the future in accordance with the Corporation Code of the Philippines. Please see Part II, Item 5, 3. Dividends for the Dividend declared for two (2) most recent years.

<u>Item 7 - Financial Statements</u>

The 2019 Consolidated Audited Financial Statements (AFS) of the Company are incorporated herein by reference. The schedules listed in the accompanying index to Supplementary Schedules are filed as part of this Report.

<u>Item 8 – Changes in and Disagreements with Accountants on Accounting and Financial Disclosures</u>

-none-

Corporate Governance

The Board of Directors including its officers attended Corporate Governance seminars in compliance with the requirements of the Securities and Exchange Commission. In addition, the total corporate organization received copies of the Manual on Corporate Governance (Manual) duly approved by the Board of Directors.

The Company's platform of corporate governance is anchored on its Manual. The Manual has been updated to reflect the requirements stated in the Code of Corporate Governance for Publicly-Listed Companies (SEC Memorandum Circular No. 19, Series of 2016). The Manual institutionalizes the principles of good corporate governance in the entire organization. It also lays down the Company's compliance system and identifies the responsibilities of the Board and Management in relation to good corporate governance.

The Company believes that compliance with the principles of good corporate governance begins with the Board of Directors. It is the Board's duty and responsibility to foster the long-term success of the Company and secure its sustained competitiveness and profitability in a manner consistent with its corporate objectives and the long-term best interest of its shareholders and other stakeholders.

The Corporation's Board of Directors is composed of individuals of proven competence, integrity, and probity. These individuals determine the Company's purposes, vision and mission, and strategies to carry out its objectives, ensure compliance with all relevant laws, regulations and codes of best business practices, adopt a system of internal checks and balances, and install a process of selection to ensure a mix of competent directors and officers.

Three (3) Independent Directors (namely, Mr. Basil L. Ong, Mr. Cesar A. Buenaventura and Mr. Eliseo B. Santiago) sit on the Board. The Company adopts the definition of Independence in the Securities Regulation Code and the CG Code for PLCs, and considers as an independent director a person who is independent of Management and the controlling shareholder, and is free from any business or other relationship which could, or could reasonably be perceived to, materially interfere with his exercise of independent judgment in carrying out his responsibilities as a director in the Company.

Based on the recommendations under the CG Code for PLCs, as adopted in the Manual, the Board organized the following committees:

- Audit Committee – which has the oversight capability over the Company's financial reporting, internal control system, internal and external audit processes, and compliance with applicable laws and regulations. The Audit Committee shall likewise review all material related party transactions and would thus exercise the functions of a Related Party Transaction Committee.

- Corporate Governance Committee – which shall be tasked to assist the Board in the performance of its corporate governance responsibilities, including the functions that were formerly assigned to the Nomination Committee and the Compensation and Remuneration Committee.

- Board Risk Oversight Committee – which shall have the oversight function over the Company's Enterprise Risk Management system, enabling the Board and Management to be in confident position to make well-performed decisions, having taken into consideration risks to significant business activities, plans, and opportunities.

Below are the Committees and their corresponding members:

Audit Committee		
Chairman	-	Mr. Cesar A. Buenaventura – Lead Independent Director
Members	-	Mr. Basil L. Ong – Independent Director
		Ms. Helen Y. Dee – Non-Executive Director
Corporate Governance Committee		
Chairman	-	Mr. Basil L. Ong – Independent Director
Members	-	Mr. Cesar A. Buenaventura – Lead Independent Director
		Mr. Eliseo B. Santiago – Independent Director
Board Risk Oversight Committee		
Chairman	-	Mr. Eliseo B. Santiago – Independent Director
Members	-	Mr. Cesar A. Buenaventura – Lead Independent Director
		Mr. Lorenzo V. Tan – Non-Executive Director

As part of corporate measures to ensure compliance with the principles and policies embodied in the Manual, the Board of Directors designated Atty. Arlan P. Profeta, as the Company's Compliance Officer (concurrent Assistant Corporate Secretary). Atty. Profeta is responsible for, among matters, determining and measuring compliance with the Manual; appearing before the Philippine SEC upon summons on matters relating to the Manual; identifying, monitoring, and controlling compliance with corporate governance matters; and recommending to the Board of Directors the review of the Manual. Atty. Profeta works closely with the Board of Directors, top management, and board committees to evaluate and monitor compliance with the Manual. Specifically, he determines the level of compliance and accordingly recommends the adoption of measures to improve such compliance. Likewise, the various board committees perform oversight duties and functions to ensure proper compliance with the Manual and other corporate policies. The Company also submits governance reports required by the Philippine SEC and the PSE to determine compliance with their rules and regulations, the Manual, and the Code of Corporate Governance. Pursuant to the CG Code for PLCs, the positions of the Corporate Secretary and Compliance Officer are no longer performed by the same person.

In line with the Company's aspirations for growth and development, the Company continues to work towards enhancing its adherence to the principles and best practices of good corporate governance.

CERTIFICATION OF

INDEPENDENT DIRECTOR

CERTIFICATION OF INDEPENDENT DIRECTOR

I, **CESAR A. BUENAVENTURA,** Filipino, of legal age and a resident of #27 Kasiyahan Homes, 58 Mckinley Road, Forbes Park, Makati City, after having been duly sworn in accordance with law do hereby declare that:

1. I am a nominee for Independent Director of **PETROENERGY RESOURCES CORPORATION** and been Independent Director since 1998 to present.

2. I am affiliated with the following companies or organizations (including Government-Owned and Controlled Corporations):

COMPANY / ORGANIZATION	POSITION / RELATIONSHIP	PERIOD OF SERVICE
Pilipinas Shell Petroleum Corporation	Director	1970 to present
Pilipinas Shell Foundation Inc.	Founding Chairman	1982 to present
Buenaventura, Echauz and Partners, Inc.	Chairman	1991 to present
DMCI Holdings, Inc.	Vice Chairman	1995 to present
DM Consunji, Inc.	Director	1995 to present
Mitsubishi Hitachi Power Systems (Phils.), Inc. – formerly Babcokc Hitachi	Chairman	1997 to present
Semirara Mining Company	Director	1997 to present
iPeople, Inc.	Director	2005 to present
Manila International Airport Authority	Director	2010 to present
Concepcion Industrial Corporation	Director	2014 to present
The Country Club	Director	

3. I possess all the qualifications and none of the disqualifications to serve as an Independent Director of **PETROENERGY RESOURCES CORPORATION**, as provided for in Section 38 of the Securities Regulation Code, its Implementing Rules and Regulations and other SEC issuances.

4. I am not related to the following director/officer/substantial shareholder of **PETROENERGY RESOURCES CORPORATION** its subsidiaries and affiliates, other than the relationship provided under the Rule 38.2.3 of the Securities Regulation Code. (where applicable)

NAME OF DIRECTOR / OFFICER / SUBSTANTIAL SHAREHOLDER	COMPANY	NATURE OF RELATIONSHIP

5. To the best of my knowledge, I am not the subject of any pending criminal or administrative investigation or proceeding.

6. I am not in government service or am affiliated with a government agency or GOCC.

7. I shall faithfully and diligently comply with my duties and responsibilities as Independent Director under the Securities Regulation Code and its Implementing Rules and Regulations, Code of Corporate Governance and other SEC issuances.

8. I shall inform the Corporate Secretary of **PETROENERGY RESOURCES CORPORATION** of any changes in the abovementioned information within five (5) days from its occurrence.

Done this June 22, 2020 at Pasig City, Philippines.

CESAR A. BUENAVENTURA
Independent Director

SUBSCRIBED AND SWORN to before me this June 22, 2020, affiant personally appeared before me and exhibited his Philippine Passport No. ________________ issued on ____________ and valid until ________________, as competent evidence of his identity.

Doc. No.: 217;
Page No.: 45;
Book No.: III;
Series of 2020.
/mdr

ATTY. LOUIE MARK R. LIMCOLIOC
Appointment No. 112 (2020-2021)
Notary Public for Pasig, San Juan and Pateros
Until 31 December 2021
7F JMT Bldg. Ortigas Center, Pasig City
Roll No. 63341
PTR No. 5242299; 01/15/2020; Pasig City
IBP No. 113855; 01/15/2020; RSM
MCLE Compliance No. VI-0018291; 02/06/19

CERTIFICATION OF INDEPENDENT DIRECTOR

I, **BASIL L. ONG,** Filipino, of legal age and a resident of 420 Agoncillo cor. Alitagtag Street, Ayala Alabang Village, Muntilupa City, after having been duly sworn in accordance with law do hereby declare that:

1. I am a nominee for Independent Director of **PETROENERGY RESOURCES CORPORATION** and been Independent Director since 2011 to present.

2. I am affiliated with the following companies or organizations (including Government-Owned and Controlled Corporations):

COMPANY / ORGANIZATION	POSITION / RELATIONSHIP	PERIOD OF SERVICE
Transnational Diversified Group, Inc.	Director	1996 to present
Adventure International Tours, Inc.	Director	1996 to present
Wordtext Systems, Inc. (WSI)	Director	2009 to present

3. I possess all the qualifications and none of the disqualifications to serve as an Independent Director of **PETROENERGY RESOURCES CORPORATION**, as provided for in Section 38 of the Securities Regulation Code, its Implementing Rules and Regulations and other SEC issuances.

4. I am not related to the following director/officer/substantial shareholder of **PETROENERGY RESOURCES CORPORATION** its subsidiaries and affiliates, other than the relationship provided under the Rule 38.2.3 of the Securities Regulation Code. (where applicable)

NAME OF DIRECTOR / OFFICER / SUBSTANTIAL SHAREHOLDER	COMPANY	NATURE OF RELATIONSHIP

5. To the best of my knowledge, I am not the subject of any pending criminal or administrative investigation or proceeding.

OFFENSE CHARGED/INVESTIGATED	TRIBUNAL OR AGENCY INVOLVED	STATUS

6. I am not in government service or am affiliated with a government agency or GOCC.

7. I shall faithfully and diligently comply with my duties and responsibilities as Independent Director under the Securities Regulation Code and its Implementing Rules and Regulations, Code of Corporate Governance and other SEC issuances.

8. I shall inform the Corporate Secretary of **PETROENERGY RESOURCES CORPORATION** of any changes in the abovementioned information within five (5) days from its occurrence.

Done this June 22, 2020 at Pasig City, Metro Manila, Philippines.

BASIL L. ONG
Independent Director

SUBSCRIBED AND SWORN to before me this June 22, 2020, affiant personally appeared before me and exhibited his Philippine Passport No. P5209696B issued on 05 June 2020 and valid until 04 June 2030 as competent evidence of his identity.

ATTY. LOUIE MARK R. LIMCOLIOC
Appointment No. 112 (2020-2021)
Notary Public for Pasig, San Juan and Pateros
Until 31 December 2021
7F JMT Bldg. Ortigas Center, Pasig City
Roll No. 63341
PTR No. 5242299; 01/15/2020; Pasig City
IBP No. 113855; 01/15/2020; RSM
MCLE Compliance No. VI-0018291; 02/06/19

Doc. No.: 216;
Page No.: 45;
Book No.: III;
Series of 2020.

CERTIFICATION OF INDEPENDENT DIRECTOR

I, **ELISEO B. SANTIAGO,** Filipino, of legal age and a resident of #23 Spinach Street, Valle Verde 5, Pasig City, after having been duly sworn in accordance with law do hereby declare that:

1. I am a nominee for Independent Director of **PETROENERGY RESOURCES CORPORATION** and been Independent Director since 2013 to present.

2. I am affiliated with the following companies or organizations (including Government-Owned and Controlled Corporations):

COMPANY / ORGANIZATION	POSITION / RELATIONSHIP	PERIOD OF SERVICE
Isla Petroleum and Gas Corporation	Member, Executive Committee	2012 to present
Citadel Pacific Ltd.	Independent Director	2016 to present

3. I possess all the qualifications and none of the disqualifications to serve as an Independent Director of **PETROENERGY RESOURCES CORPORATION**, as provided for in Section 38 of the Securities Regulation Code, its Implementing Rules and Regulations and other SEC issuances.

4. I am not related to the following director/officer/substantial shareholder of **PETROENERGY RESOURCES CORPORATION** its subsidiaries and affiliates, other than the relationship provided under the Rule 38.2.3 of the Securities Regulation Code. (where applicable)

NAME OF DIRECTOR / OFFICER / SUBSTANTIAL SHAREHOLDER	COMPANY	NATURE OF RELATIONSHIP

5. To the best of my knowledge, I am not the subject of any pending criminal or administrative investigation or proceeding.

6. I am not in government service or am affiliated with a government agency or GOCC.

7. I shall faithfully and diligently comply with my duties and responsibilities as Independent Director under the Securities Regulation Code and its Implementing Rules and Regulations, Code of Corporate Governance and other SEC issuances.

8. I shall inform the Corporate Secretary of **PETROENERGY RESOURCES CORPORATION** of any changes in the abovementioned information within five (5) days from its occurrence.

Done this June 22, 2020 at Pasig City, Metro Manila, Philippines.

ELISEO B. SANTIAGO
Independent Director

SUBSCRIBED AND SWORN to before me this June 22, 2020, affiant personally appeared before me and exhibited his Tax Identification No. 106-210-036 as competent evidence of his identity.

ATTY. LOUIE MARK R. LIMCOLIOC
Appointment No. 112 (2020-2021)
Notary Public for Pasig, San Juan and Pateros
Until 31 December 2021
7F JMT Bldg. Ortigas Center, Pasig City
Roll No. 63341
PTR No. 5242299; 01/15/2020; Pasig City
IBP No. 113855; 01/15/2020; RSM
MCLE Compliance No. VI-0018291; 02/06/19

Doc. No.: 218;
Page No.: 45;
Book No.: II;
Series of 2020.
/mdr

PETROENERGY RESOURCES CORPORATION

Procedures and Requirements for Voting and Participation in the 2020 Annual Stockholders' Meeting

To conform with the Government's regulations on social distancing and prohibition on mass gatherings and to protect the safety of its stockholders during the COVID-19 pandemic crisis, PetroEnergy Resources Corporation (the "Company") will dispense with the physical attendance of its stockholders for the 2020 Annual Stockholders' Meeting (ASM). Instead, the Company will conduct the 2020 ASM scheduled on August 18, 2020 at 1:30 p.m. by remote communication and will conduct electronic voting in absentia.

Only stockholders of record as of June 5, 2020 are entitled to participate and vote in the 2020 ASM.

The Company has adopted the following procedures and requirements to enable its stockholders to participate and vote in the 2020 ASM:

I. ONLINE REGISTRATION STEPS AND REQUIREMENTS

A. Stockholders may register **from 9:00 AM of July 20, 2020 until 5:00 PM of August 10, 2020** to signify his/her/its intention to participate in the 2020 ASM by remote communication. The registration steps and requirements are available through the following link: http://petroenergy.com.ph/investor_relations.

B. To register, stockholders shall submit the following requirements to the Office of the Corporate Secretary via email at asm@petroenergy.com.ph:

B.1. **For Individual Stockholders:**
(i) Scanned valid government issued identification card;
(ii) Valid email address and active contact number;

B.2. **For Stockholders with Joint Accounts:**
(i) Authorization letter signed by all stockholders indicating the name of the person authorized to cast the votes;
(ii) Valid email address and active contact number of the authorized stockholder;
(iii) Scanned copy of valid government-issued identification card of the authorized stockholder;

B.3. **For Stockholders under PCD Participant/Brokers Account or holding 'Scripless Shares':**
(i) Broker's Certification on the stockholder's number of shareholdings;
(ii) Valid email address and active contact number of the stockholder;
(iii) Scanned copy of valid government-issued identification card of stockholder; and

B.4. **For Corporate Stockholders:**
(i) Secretary's Certificate attesting to the authority of the representative to vote the shares on behalf of the corporate stockholder;
(ii) Valid email address and active contact number of authorized representative; and
(iii) Valid government-issued identification card of authorized representative.

C. The documents submitted will then be verified by the Office of the Corporate Secretary with the assistance of the Stock Transfer Agent. The validation process will be completed by the Company no later than three (3) business days from the stockholder's receipt of an email from the Company acknowledging receipt of the stockholder's registration documents. Once validated, the stockholder will receive an email that his/her/its account has been verified and shall be provided instructions for the stockholder's access to the Company's electronic voting and to access the ASM livestreaming link.

II. ELECTRONIC VOTING IN ABSENTIA

A. Duly registered stockholders have the option to vote for the matters contained in the agenda for the 2020 ASM through electronic voting in absentia. The deadline for registration is 5:00 PM of August 10, 2020. Beyond this date, stockholders may no longer avail of the option to electronically vote in absentia.

B. After verification, the Company shall send a ballot to the registered stockholder through his/her/its e-mail address which shall contain all the agenda items for approval as indicated in the Notice of Meeting and the registered stockholder may vote as follows:

(1) For items other than Election of Directors, the registered stockholder has the option to vote: In Favor of, Against, or Abstain. The vote is considered cast for all the registered stockholder's shares.
(2) For the Election of Directors, the registered stockholder may vote for all nominees, not vote for any of the nominees, or vote for some nominees only, in such number of shares as preferred by the stockholder, provided that the total number of votes cast shall not exceed the number of shares owned, multiplied by the number of directors to be elected. The total number of votes the stockholder is allowed to cast shall be based on the number of shares he/she or it owns.
(3) Once voting on the agenda items is finished, the stockholder can proceed to submit the accomplished ballot via email to asm@petroenergy.com.ph.
(4) After the ballot has been submitted, the stockholder may no longer change his/her vote. The stockholder will receive a confirmation email that his/her/its vote has been recorded.

C. Thereafter, the Office of the Corporate Secretary and the Transfer Agent, shall tabulate all valid and confirmed votes cast through electronic voting, together with the votes through proxies.

D. Registered stockholders shall have until 5:00 PM of August 10, 2020 to cast their votes in absentia. Stockholders will not be allowed to cast votes during the livestream of the 2020 ASM.

III. VOTING BY PROXY

A. For individual stockholders holding certificated shares of the Company – Download the proxy form that is available at http:// petroenergy.com.ph/investor_relations.

B. For stockholders holding 'scripless' shares, or shares held under a PCD Participant/Broker – Download the proxy form that is available at http://petroenergy.com.ph/investor_relations. Stockholders are advised to coordinate with their brokers first for the execution of this type of proxy.

C. For corporate stockholders - Download the proxy form that is available at http://petroenergy com.ph/investor_relations. A copy of the duly signed and notarized Secretary's Certificate must be submitted together with the proxy form.

D. General Instructions on Voting by Proxy:

(1) Download and fill up the appropriate proxy form. Follow the instructions on how to cumulate or allocate votes in the election of directors.
(2) Send the scanned copy of the duly executed proxy form via email to corporate secretary via asm@petroenergy.com.ph or submit the original proxy form to the Office of the Corporate Secretary at 7th Floor, JMT Building, ADB Avenue, Ortigas Center, Pasig City.
(3) Deadline for the submission of proxies is at 5:00 PM of August 10, 2020.
(4) Validation of proxies will be on August 10, 2020.
(5) If a stockholder avails of the option to cast his/her vote electronically in absentia and also issues proxy votes with differing instructions, the duly accomplished ballots sent through e-mail shall replace the proxy votes issued by the stockholder.

IV. PARTICIPATION BY REMOTE COMMUNICATION

A. Only duly registered stockholders will be included in determining the existence of a quorum.
B. Duly registered stockholders may send their questions and/or comments prior to the ASM through email at asm@petroenergy.com.ph. The deadline for submitting questions shall be at **5:00 PM of August 10, 2020.**
C. The proceedings during the 2020 ASM will be recorded. For any clarifications, please contact the Office of the Corporate Secretary via email at asm@petroenergy.com.ph.

ANNEX "C"

SAMPLE ONLY
PROXY PETROENERGY RESOURCES CORPORATION
2020 STOCKHOLDERS' MEETING

I/WE hereby name and appoint, ______________________________, or in her absence, the Chairman of the meeting, as my/our proxy at the annual stockholders' meeting of **PETROENERGY RESOURCES CORPORATION. ("PERC")** to be held on **August 18, 2020** and/or at any postponement or adjournment thereof, and/or any annual stockholders' meeting of PERC, which appointment shall not exceed five (5) years from date hereof.

In particular, I hereby direct my said proxy to vote all my shares on the agenda items set forth below as I have expressly indicated by marking the same with an "X".

Item No.	Subject	Action		
		For	Against	Abstain
I.	Approval of the Minutes of the Annual Meeting held on July 25, 2019			
II.	Approval of Management Report and the 2019 Audited Financial Statements contained in the 2019 Annual Report			
III.	Confirmation and Ratification of all acts, contracts and investment made and entered during the period July 25, 2019 to August 18, 2020			
IV.	Election of Directors for the year 2020-2021			
	1. Helen Y. Dee			
	2. Milagros V. Reyes			
	3. Yvonne S. Yuchengco			
	4. Cesar A. Buenaventura			
	5. Basil L. Ong			
	6. Eliseo B. Santiago			
	7. Lorenzo V. Tan			
V.	Appointment of External Auditors			

I am accomplishing this Proxy Form this _____ day of ______ 2020.

__________________________________ __________________________________

PRINTED NAME OF STOCKHOLDER **AUTHORIZED SIGNATORY**

THIS PROXY SHOULD BE SUBMITTED UNTIL **5:00 PM OF AUGUST 10, 2020**, TO THE OFFICE OF THE CORPORATE SECRETARY AT 7th Floor, JMT Building, ADB Avenue, Ortigas Center, Pasig City OR BY EMAIL AT asm@petroenergy.com.ph. THIS PROXY, WHEN PROPERLY EXECUTED, WILL BE VOTED IN THE MANNER AS DIRECTED HEREIN BY THE STOCKHOLDER(S). IF NO DIRECTION IS MADE, THIS PROXY WILL BE VOTED FOR THE ELECTION OF ALL NOMINEES AND FOR THE APPROVAL OF THE MATTERS STATED ABOVE AND FOR SUCH OTHER MATTERS AS MAY PROPERLY COME BEFORE THE MEETING IN THE MANNER DESCRIBED IN THE INFORMATION STATEMENT. A STOCKHOLDER GIVING A PROXY HAS THE POWER TO REVOKE IT AT ANY TIME BEFORE THE RIGHT GRANTED IS EXERCISED. A PROXY IS ALSO CONSIDERED REVOKED IF THE STOCKHOLDER ATTENDS THE MEETING IN PERSON AND EXPRESSED HIS INTENTION TO VOTE IN PERSON. THIS PROXY DOES NOT NEED TO BE NOTARIZED.

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ANNEX "C-1"

PETROENERGY RESOURCES CORPORATION
2020 STOCKHOLDERS' MEETING

ELECTRONIC VOTING IN ABSENTIA

A. Duly registered stockholders have the option to vote for the matters contained in the agenda for the 2020 ASM through electronic voting in absentia. The deadline for registration is **5:00 PM of August 10, 2020**. Beyond this date, stockholders may no longer avail of the option to electronically vote in absentia.

B. After verification, the Company shall send a ballot to the registered stockholder through his/her/its e-mail address which shall contain all the agenda items for approval as indicated in the Notice of Meeting and the registered stockholder may vote as follows:

(1) For items other than Election of Directors, the registered stockholder has the option to vote: In Favor of, Against, or Abstain. The vote is considered cast for all the registered stockholder's shares.

(2) For the Election of Directors, the registered stockholder may vote for all nominees, not vote for any of the nominees, or vote for some nominees only, in such number of shares as preferred by the stockholder, provided that the total number of votes cast shall not exceed the number of shares owned, multiplied by the number of directors to be elected. The total number of votes the stockholder is allowed to cast shall be based on the number of shares he/she or it owns.

(3) Once voting on the agenda items is finished, the stockholder can proceed to submit the accomplished ballot via email to asm@petroenergy.com.ph.

(4) After the ballot has been submitted, the stockholder may no longer change his/her vote. The stockholder will receive a confirmation email that his/her/its vote has been recorded.

B. Thereafter, the Office of the Corporate Secretary and the Transfer Agent, shall tabulate all valid and confirmed votes cast through electronic voting, together with the votes through proxies.

D. Registered stockholders shall have until **5:00 PM of August 10, 2020** to cast their votes in absentia. Stockholders will not be allowed to cast votes during the livestream of the 2020 ASM.

Item No.	**Subject**	**Action**		
		For	**Against**	**Abstain**
I.	Approval of Minutes of the Annual Meeting held on July 25, 2019			
II.	Approval of Management Report and the 2019 Audited Financial Statements contained in the 2019 Annual Report			
III.	Confirmation and Ratification of all acts, contracts and investment made and entered during the period July 25, 2019 to August 18, 2020			
IV.	Election of Directors for the year 2020-2021			
	1. Helen Y. Dee			
	2. Milagros V. Reyes			
	3. Yvonne S. Yuchengco			
	4. Cesar A. Buenaventura			
	5. Basil L. Ong			
	6. Eliseo B. Santiago			
	7. Lorenzo V. Tan			
V.	Appointment of External Auditors			

ANNEX "D"

AUDITED FINANCIAL STATEMENTS 2019

AND

UNAUDITED 1ST QUARTERLY REPORT 2020

PetroEnergy
PETROENERGY RESOURCES CORPORATION

7F JMT Building, ADB Avenue, Ortigas Center,
Pasig City 1600, Metro Manila, Philippines
Tel: (+632) 8637-2917
Fax: (+632) 8634-6066
Visit: www.petroenergy.com.ph

A YGC Member
The Power of Synergy

STATEMENT OF MANAGEMENT'S RESPONSIBILITY
FOR FINANCIAL STATEMENTS

June 22, 2020

Securities and Exchange Commission
PICC, Roxas Boulevard, Pasay City

The management of PetroEnergy Resources Corporation is responsible for the preparation and fair presentation of the consolidated financial statements including the schedules attached therein, for the years ended December 31, 2019 and 2018, in accordance with the prescribed financial reporting framework indicated therein, and for such internal control as management determines is necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error.

In preparing the financial statements, management is responsible for assessing the Company's ability to continue as a going concern, disclosing, as applicable matters related to going concern and using the going concern basis of accounting unless management either intends to liquidate the Company or to cease operations, or has not realistic alternative but to do so.

The Board of Directors is responsible for overseeing the Company's financial reporting process.

The Board of Directors reviews and approves the financial statements including the schedules attached therein, and submits the same to the stockholders or members.

SyCip, Gorres, Velayo & Co., the independent auditor appointed by the stockholders, has audited the financial statements of the company in accordance with Philippine Standards on Auditing, and in its report to the stockholders or members, has expressed its opinion on the fairness of presentation upon completion of such audit.

Helen Y. Dee Chairman	Milagros V. Reyes President	Carlota R. Viray AVP - Finance

SUBSCRIBED AND SWORN to me before this JUN 22 2020 in Pasig City. Affiants exhibited to me their Tax Identification Numbers (TIN) indicated below each name.

NAMES	TIN
Helen Y. Dee	101-562-982
Milagros V. Reyes	100-732-775
Carlota R. Viray	100-732-809

ATTY. LOUIE MARK R. LIMCOLIOC
Appointment No. 112 (2020-2021)
Notary Public for Pasig, San Juan and Pateros
Until 31 December 2021
7F JMT Bldg. Ortigas Center, Pasig City
Roll No. 63341
PTR No. 5242299; 01/15/2020; Pasig City
IBP No. 113855; 01/15/2020; RSM
MCLE Compliance No. VI-0018291; 02/06/19

Doc. No. 225;
Page No. 46;
Book No. III;
Series of 2020.

C O V E R   S H E E T
for
AUDITED FINANCIAL STATEMENTS

SEC Registration Number

A	S	O	9	4	-	0	8	8	8	0

C O M P A N Y   N A M E

PETROENERGY RESOURCES CORPORATION AND SUBSIDIARIES

PRINCIPAL OFFICE *(No. / Street / Barangay / City / Town / Province)*

7th Floor, JMT Building, ADB Avenue, Ortigas Center, Pasig City

Form Type	Department requiring the report	Secondary License Type, If Applicable
ACFS	SEC	N/A

C O M P A N Y   I N F O R M A T I O N

Group's Email Address	Group's Telephone Number	Mobile Number
petro_energy@petroenergy.com.ph	8637-2917	N/A

No. of Stockholders	Annual Meeting (Month / Day)	Fiscal Year (Month / Day)
1,999	8/18	12/31

CONTACT PERSON INFORMATION

The designated contact person ***MUST*** be an Officer of the Corporation

Name of Contact Person	Email Address	Telephone Number/s	Mobile Number
Carlota R. Viray	crviray@petroenergy.com.ph	8637-2917	N/A

CONTACT PERSON's ADDRESS

7th Floor, JMT Building, ADB Avenue, Ortigas Center, Pasig City

NOTE 1 : *In case of death, resignation or cessation of office of the officer designated as contact person, such incident shall be reported to the Commission within thirty (30) calendar days from the occurrence thereof with information and complete contact details of the new contact person designated.*

2 : *All Boxes must be properly and completely filled-up. Failure to do so shall cause the delay in updating the corporation's records with the Commission and/or non-receipt of Notice of Deficiencies. Further, non-receipt of Notice of Deficiencies shall not excuse the corporation from liability for its efficiencies.*

SyCip Gorres Velayo & Co.
6760 Ayala Avenue
1226 Makati City
Philippines

Tel: (632) 891 0307
Fax: (632) 819 0872
ey.com/ph

BOA/PRC Reg. No. 0001,
October 4, 2018, valid until August 24, 2021
SEC Accreditation No. 0012-FR-5 (Group A),
November 6, 2018, valid until November 5, 2021

INDEPENDENT AUDITOR'S REPORT

The Board of Directors and Stockholders
PetroEnergy Resources Corporation
7th Floor, JMT Building, ADB Avenue
Ortigas Center, Pasig City

Report on the Audit of the Financial Statements

Opinion

We have audited the consolidated financial statements of PetroEnergy Resources Corporation and its subsidiaries (the Group), which comprise the consolidated statements of financial position as at December 31, 2019 and 2018, and the consolidated statements of comprehensive income, consolidated statements of changes in equity and consolidated statements of cash flows for each of the three years in the period ended December 31, 2019, and notes to the consolidated financial statements, including a summary of significant accounting policies.

In our opinion, the accompanying consolidated financial statements present fairly, in all material respects, the consolidated financial position of the Group as at December 31, 2019 and 2018, and its consolidated financial performance and its consolidated cash flows for each of the three years in the period ended December 31, 2019 in accordance with Philippine Financial Reporting Standards (PFRSs).

Basis for Opinion

We conducted our audits in accordance with Philippine Standards on Auditing (PSAs). Our responsibilities under those standards are further described in the *Auditor's Responsibilities for the Audit of the Consolidated Financial Statements* section of our report. We are independent of the Group in accordance with the Code of Ethics for Professional Accountants in the Philippines (Code of Ethics) together with the ethical requirements that are relevant to our audit of the consolidated financial statements in the Philippines, and we have fulfilled our other ethical responsibilities in accordance with these requirements and the Code of Ethics. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

Key Audit Matters

Key audit matters are those matters that, in our professional judgment, were of most significance in our audit of the consolidated financial statements of the current period. These matters were addressed in the context of our audit of the consolidated financial statements as a whole, and in forming our opinion thereon, and we do not provide a separate opinion on these matters. For each matter below, our description of how our audit addressed the matter is provided in that context.

We have fulfilled the responsibilities described in the *Auditor's Responsibilities for the Audit of the Consolidated Financial Statements* section of our report, including in relation to these matters. Accordingly, our audit included the performance of procedures designed to respond to our assessment of the risks of material misstatement of the consolidated financial statements. The results of our audit procedures, including the procedures performed to address the matters below, provide the basis for our audit opinion on the accompanying consolidated financial statements.

Recoverability of investments in Gabon, West Africa

The Group has significant investments in Gabon, West Africa consisting of wells, platforms and other facilities which are presented under Property, plant and equipment, and Deferred oil exploration costs that are both tested for impairment when there are indications that the carrying values of these investments may exceed their recoverable amounts. The assessment of the recoverable amount of these investments requires significant judgment and involves estimation using assumptions about future production levels and costs, as well as external inputs such as oil prices and discount rate. Hence, such assessment is a key audit matter in our audit.

The disclosures in relation to the Group's investments in Gabon, West Africa are included in Notes 10 and 11 to the consolidated financial statements.

Audit response

We involved our internal specialist in evaluating the methodologies and the assumptions used. These assumptions include future production levels and costs as well as external inputs such as oil prices and discount rate. We compared the key assumptions used such as future production levels against oil reserves and costs against historical data. We tested the parameters used in the determination of the oil prices and discount rate against market data. We also reviewed the Group's disclosures about those assumptions to which the outcome of the impairment test is most sensitive, specifically those that have the most significant effect in the determination of the recoverable amounts of these investments.

Estimation of oil reserves

The estimation oil reserves is a focus area because the resulting estimates have a material impact on the consolidated financial statements, as these are utilized in the impairment testing and the calculation of depletion expense of the investments in Gabon, West Africa. There are inherent uncertainties involved in estimating oil reserve quantities because of the exercise of significant management judgment and consideration of inputs from internal geologists and the complex contractual arrangements involved as regards the Group's share of reserves in the exploration and production sharing contract areas. This uncertainty also depends on the amount of reliable geologic and engineering data available at the time of the estimate and the interpretation of these data.

The disclosures in relation to oil reserves are included in Note 10 to the consolidated financial statements.

Audit response

We considered the competence, capabilities and objectivity of the geologists engaged by the Group to perform an independent assessment of its oil reserves given their qualifications, experience and reporting responsibilities. We reviewed the specialist's report and obtained an understanding of the nature, scope and objectives of his work and basis of the estimates including any changes in the reserves during the year. In addition, we tested the reserves estimates applied to the relevant areas of the consolidated financial statements including impairment and depletion expense testing.

Estimation of asset retirement obligations

The Group has provisions for the close-down, restoration and environmental obligations on its solar power plant in Tarlac, geothermal power plant in Batangas and interest in oil fields in Gabon totaling to ₱90.62 million as of December 31, 2019. The Group uses an external technical specialist to assess its share in abandonment cost in the Gabon oil fields, and an internal technical group to estimate the future restoration costs of its solar and geothermal power plant sites. The estimation of the provisions requires significant management judgment in estimating future costs given the nature of each site, the operating activities done, and the facilities constructed, among other considerations. These calculations require the management to use a discount rate for these future costs to bring them to their present value at reporting date.

The Group's disclosures about asset retirement obligations are included in Note 18 to the consolidated financial statements.

Audit response

We considered the competence, capabilities and objectivity of management's internal and external technical specialists given their qualifications, experience and reporting responsibilities. We reviewed the decommissioning report and obtained an understanding from the internal and external technical specialists about their bases for identifying and estimating the Group's share in abandonment costs in the Gabon oil fields and restoration costs of its solar and geothermal power plant sites. We also evaluated the discount rates used by comparing these to external data.

Adoption of PFRS 16, Leases

Effective January 1, 2019, the Group adopted Philippine Financial Reporting Standard (PFRS) 16, *Leases*, under the modified retrospective approach which resulted in significant changes in the Group's accounting policy for leases. The Group's adoption of PFRS 16 is significant to our audit because the recorded amounts are material to the consolidated financial statements and adoption involves application of significant estimation in determining the incremental borrowing rate. This resulted in the recognition of right-of-use assets and lease liabilities amounting to ₱426,743,257 and ₱342,107,039, respectively, as of January 1, 2019, and the recognition of depreciation expense and interest expense of ₱23,348,556 and ₱32,060,888, respectively, for the year ended December 31, 2019.

The disclosures related to the adoption of PFRS 16 are included in Note 3 to the consolidated financial statements.

Audit response

We obtained an understanding of the Group's process in implementing the new standard on leases, including the determination of the population of the lease contracts covered by PFRS 16, the application of the short-term and low-value assets exemption, the selection of the transition approach and any election of available practical expedients.

We tested the population of lease agreements by reviewing the rent expense schedule.

We inspected the lease agreements and identified their contractual terms and conditions. We reviewed management's assessment of lease contracts covered by PFRS 16 and traced these contractual terms and conditions to the lease calculation prepared by management, which covers the calculation of financial impact of PFRS 16, including the transition adjustments.

For lease contracts with renewal and/or termination option, we reviewed management's assessment of whether it is reasonably certain that the Group will exercise the option to renew or not exercise the option to terminate.

We tested the parameters used in the determination of the incremental borrowing rate by reference to market data. We test computed the lease calculation prepared by management, including the transition adjustments.

We reviewed the disclosures related to the transition adjustments based on the requirements of PFRS 16 and PAS 8, *Accounting Policies, Changes in Accounting Estimates and Errors*.

Other Information

Management is responsible for the other information. The other information comprises the information included in the SEC Form 20-IS (Definitive Information Statement), SEC Form 17-A and Annual Report for the year ended December 31, 2019, but does not include the consolidated financial statements and our auditor's report thereon. The SEC Form 20-IS (Definitive Information Statement), SEC Form 17-A and Annual Report for the year ended December 31, 2019 are expected to be made available to us after the date of this auditor's report.

Our opinion on the consolidated financial statements does not cover the other information and we will not express any form of assurance conclusion thereon.

In connection with our audits of the consolidated financial statements, our responsibility is to read the other information identified above when it becomes available and, in doing so, consider whether the other information is materially inconsistent with the consolidated financial statements or our knowledge obtained in the audits, or otherwise appears to be materially misstated.

Responsibilities of Management and Those Charged with Governance for the Consolidated Financial Statements

Management is responsible for the preparation and fair presentation of the consolidated financial statements in accordance with PFRSs, and for such internal control as management determines is necessary to enable the preparation of consolidated financial statements that are free from material misstatement, whether due to fraud or error.

In preparing the consolidated financial statements, management is responsible for assessing the Group's ability to continue as a going concern, disclosing, as applicable, matters related to going concern and using the going concern basis of accounting unless management either intends to liquidate the Group or to cease operations, or has no realistic alternative but to do so.

Those charged with governance are responsible for overseeing the Group's financial reporting process.

Auditor's Responsibilities for the Audit of the Consolidated Financial Statements

Our objectives are to obtain reasonable assurance about whether the consolidated financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditor's report that includes our opinion. Reasonable assurance is a high level of assurance, but is not a guarantee that an audit conducted in accordance with PSAs will always detect a material misstatement when it exists. Misstatements can arise from fraud or error and are considered material if, individually or in the aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of these consolidated financial statements.

As part of an audit in accordance with PSAs, we exercise professional judgment and maintain professional skepticism throughout the audit. We also:

- Identify and assess the risks of material misstatement of the consolidated financial statements, whether due to fraud or error, design and perform audit procedures responsive to those risks, and obtain audit evidence that is sufficient and appropriate to provide a basis for our opinion. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control.

- Obtain an understanding of internal control relevant to the audit in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Group's internal control.

- Evaluate the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by management.

- Conclude on the appropriateness of management's use of the going concern basis of accounting and, based on the audit evidence obtained, whether a material uncertainty exists related to events or conditions that may cast significant doubt on the Group's ability to continue as a going concern. If we conclude that a material uncertainty exists, we are required to draw attention in our auditor's report to the related disclosures in the consolidated financial statements or, if such disclosures are inadequate, to modify our opinion. Our conclusions are based on the audit evidence obtained up to the date of our auditor's report. However, future events or conditions may cause the Group to cease to continue as a going concern.

- Evaluate the overall presentation, structure and content of the consolidated financial statements, including the disclosures, and whether the consolidated financial statements represent the underlying transactions and events in a manner that achieves fair presentation.

- Obtain sufficient appropriate audit evidence regarding the financial information of the entities or business activities within the Group to express an opinion on the consolidated financial statements. We are responsible for the direction, supervision and performance of the audit. We remain solely responsible for our audit opinion.

We communicate with those charged with governance regarding, among other matters, the planned scope and timing of the audit and significant audit findings, including any significant deficiencies in internal control that we identify during our audit.

We also provide those charged with governance with a statement that we have complied with relevant ethical requirements regarding independence, and to communicate with them all relationships and other matters that may reasonably be thought to bear on our independence, and where applicable, related safeguards.

From the matters communicated with those charged with governance, we determine those matters that were of most significance in the audit of the consolidated financial statements of the current period and are therefore the key audit matters. We describe these matters in our auditor's report unless law or regulation precludes public disclosure about the matter or when, in extremely rare circumstances, we determine that a matter should not be communicated in our report because the adverse consequences of doing so would reasonably be expected to outweigh the public interest benefits of such communication.

The engagement partner on the audit resulting in this independent auditor's report is Ana Lea C. Bergado.

SYCIP GORRES VELAYO & CO.

Ana Lea C. Bergado

Ana Lea C. Bergado
Partner
CPA Certificate No. 80470
SEC Accreditation No. 0660-AR-4 (Group A),
October 22, 2019, valid until October 21, 2022
Tax Identification No. 102-082-670
BIR Accreditation No. 08-001998-63-2018,
February 14, 2018, valid until February 13, 2021
PTR No. 8125214, January 7, 2020, Makati City

June 22, 2020

PETROENERGY RESOURCES CORPORATION AND SUBSIDIARIES
CONSOLIDATED STATEMENTS OF FINANCIAL POSITION

	December 31	
	2019	2018
ASSETS		
Current Assets		
Cash and cash equivalents (Note 6)	**₱1,066,698,077**	₱1,188,110,520
Receivables (Note 7)	**332,889,623**	355,453,001
Financial assets at fair value through profit or loss (Note 8)	**8,240,096**	8,482,706
Other current assets (Note 9)	**739,069,787**	770,894,442
Total Current Assets	**2,146,897,583**	2,322,940,669
Noncurrent Assets		
Property, plant and equipment (Notes 5 and 10)	**8,536,605,048**	7,937,424,612
Deferred oil exploration costs (Notes 5 and 11)	**192,958,190**	230,328,188
Investment in a joint venture (Note 12)	**1,563,732,303**	1,526,687,692
Right-of-use assets (Note 13)	**403,394,701**	–
Deferred tax assets - net (Note 20)	**12,623,992**	10,493,156
Investment properties (Note 14)	**1,611,533**	1,611,533
Other noncurrent assets (Note 15)	**506,399,446**	710,153,803
Total Noncurrent Assets	**11,217,325,213**	10,416,698,984
TOTAL ASSETS	**₱13,364,222,796**	₱12,739,639,653
LIABILITIES AND EQUITY		
Current Liabilities		
Accounts payable and accrued expenses (Note 16)	**₱343,716,074**	₱318,226,505
Current portion of loans payable (Note 17)	**1,197,555,427**	731,283,710
Lease liabilities - current (Note 13)	**18,974,634**	–
Income tax payable (Note 20)	**4,019,134**	5,709,928
Total Current Liabilities	**1,564,265,269**	1,055,220,143
Noncurrent Liabilities		
Loans payable - net of current portion (Note 17)	**4,102,283,436**	4,941,630,391
Lease liabilities - net of current portion (Note 13)	**318,854,915**	–
Asset retirement obligation (Note 18)	**90,621,021**	63,156,679
Other noncurrent liabilities	**22,388,139**	32,513,365
Total Noncurrent Liabilities	**4,534,147,511**	5,037,300,435
Total Liabilities	**6,098,412,780**	6,092,520,578
Equity		
Attributable to equity holders of the Parent Company		
Capital stock (Note 19)	**568,711,842**	568,711,842
Additional paid-in capital (Note 19)	**2,156,679,049**	2,156,679,049
Retained earnings (Note 19)	**2,017,651,639**	1,725,169,585
Remeasurements of net accrued retirement liability	**(10,120,685)**	(6,287,192)
Cumulative translation adjustment (Note 19)	**114,499,681**	114,499,681
Equity reserve (Note 19)	**80,049,238**	80,049,238
	4,927,470,764	4,638,822,203
Non-controlling interests (Note 29)	**2,338,339,252**	2,008,296,872
Total Equity	**7,265,810,016**	6,647,119,075
TOTAL LIABILITIES AND EQUITY	**₱13,364,222,796**	₱12,739,639,653

See accompanying Notes to Consolidated Financial Statements.

PETROENERGY RESOURCES CORPORATION AND SUBSIDIARIES
CONSOLIDATED STATEMENTS OF COMPREHENSIVE INCOME

	Years Ended December 31		
	2019	2018	2017
REVENUES			
Electricity sales (Notes 4 and 33)	**₱1,771,107,457**	₱1,725,156,936	₱1,454,160,126
Oil revenues (Note 33)	**351,057,274**	436,971,279	328,188,038
	2,122,164,731	2,162,128,215	1,782,348,164
COST OF SALES			
Cost of electricity sales (Note 21)	**805,694,582**	721,184,272	599,993,624
Oil production (Note 22)	**221,259,356**	242,695,131	206,071,255
Depletion (Note 10)	**55,845,199**	81,096,112	100,126,378
Change in crude oil inventory (Notes 4 and 9)	**(2,371,818)**	22,803,652	–
	1,080,427,319	1,067,779,167	906,191,257
GROSS INCOME	**1,041,737,412**	1,094,349,048	876,156,907
GENERAL AND ADMINISTRATIVE EXPENSES (Note 23)	**223,213,616**	217,463,499	146,616,872
OTHER INCOME (CHARGES) - Net			
Interest expense (Notes 13 and 17)	**(409,690,469)**	(388,377,540)	(357,577,576)
Share in net income of a joint venture (Note 12)	**97,552,085**	118,849,158	75,447,359
Interest income (Notes 6, 7 and 9)	**44,025,392**	43,860,614	18,768,841
Net foreign exchange gains (losses)	**(7,232,114)**	6,070,411	(2,390,612)
Accretion expense (Note 18)	**(4,505,825)**	(4,309,762)	(3,353,344)
Net gain (loss) on fair value changes on financial assets at fair value through profit or loss (Note 8)	**(242,610)**	(575,624)	916,183
Impairment reversal (loss) (Notes 10 and 11)	**–**	54,317,979	(97,999,403)
Miscellaneous income (Note 24)	**7,682,215**	6,354,982	6,112,523
	(272,411,326)	(163,809,782)	(360,076,029)
INCOME BEFORE INCOME TAX	**546,112,470**	713,075,767	369,464,006
PROVISION FOR (BENEFIT FROM) INCOME TAX (Note 20)	**12,179,814**	18,162,480	(57,069,487)
NET INCOME	**533,932,656**	694,913,287	426,533,493
OTHER COMPREHENSIVE INCOME (LOSS)			
Item that may be reclassified to profit or loss in subsequent periods			
Movements in cumulative translation adjustment - net of tax	–	24,653,465	6,652,340
Item not to be reclassified to profit or loss in subsequent periods			
Remeasurement gains (losses) on net accrued retirement liability - net of tax	**(5,446,967)**	3,451,605	(12,164,089)
TOTAL OTHER COMPREHENSIVE INCOME (LOSS)	**(5,446,967)**	28,105,070	(5,511,749)
TOTAL COMPREHENSIVE INCOME	**₱528,485,689**	₱723,018,357	₱421,021,744

(Forward)

	Years Ended December 31		
	2019	2018	2017
NET INCOME ATTRIBUTABLE TO:			
Equity holders of the Parent Company	**₱292,835,761**	₱421,257,530	₱191,184,064
Non-controlling interests (Note 29)	**241,096,895**	273,655,757	235,349,429
	₱533,932,656	₱694,913,287	₱426,533,493
TOTAL COMPREHENSIVE INCOME ATTRIBUTABLE TO:			
Equity holders of the Parent Company	**₱289,002,268**	₱449,219,204	₱188,897,713
Non-controlling interests (Note 29)	**239,483,421**	273,799,153	232,124,031
	₱528,485,689	₱723,018,357	₱421,021,744
EARNINGS PER SHARE FOR NET INCOME ATTRIBUTABLE TO EQUITY HOLDERS OF THE PARENT COMPANY - BASIC AND DILUTED (Note 28)	**₱0.5149**	₱0.7407	₱0.4655

See accompanying Notes to Consolidated Financial Statements.

PETROENERGY RESOURCES CORPORATION AND SUBSIDIARIES

CONSOLIDATED STATEMENTS OF CHANGES IN EQUITY

FOR THE YEARS ENDED DECEMBER 31, 2019, 2018 AND 2017

	Attributable to Equity Holders of the Parent Company									
	Capital Stock (Note 19)	**Additional Paid-in Capital** (Note 19)	**Appropriated Retained Earnings** (Note 19)	**Unappropriated Retained Earnings** (Note 19)	**Remeasurement of Net Accrued Retirement Liability**	**Cumulative Translation Adjustment**	**Equity Reserve** (Note 19)	**Total**	**Non-controlling Interests** (Note 29)	**Total**
BALANCES AT DECEMBER 31, 2016	**₱410,736,330**	**₱1,556,372,104**	**₱138,589,220**	**₱1,002,574,363**	**(₱656,710)**	**₱83,193,876**	**₱80,049,238**	**₱3,270,858,421**	**₱1,166,577,093**	**₱4,437,435,514**
Net income	–	–	–	191,184,064	–	–	–	191,184,064	235,349,429	426,533,493
Remeasurement loss on net accrued retirement liability	–	–	–	–	(8,938,691)	–	–	(8,938,691)	(3,225,398)	(12,164,089)
Movement in cumulative translation adjustment	–	–	–	–	–	6,652,340	–	6,652,340	–	6,652,340
Total comprehensive income (loss)	–	–	–	191,184,064	(8,938,691)	6,652,340	–	188,897,713	232,124,031	421,021,744
Increase in non-controlling interests - stock issuances	–	–	–	–	–	–	–	–	226,798,148	226,798,148
Cash dividends	–	–	–	–	–	–	–	–	(35,000,000)	(35,000,000)
BALANCES AT DECEMBER 31, 2017	**410,736,330**	**1,556,372,104**	**138,589,220**	**1,193,758,427**	**(9,595,401)**	**89,846,216**	**80,049,238**	**3,459,756,134**	**1,590,499,272**	**5,050,255,406**
Net income	–	–	–	421,257,530	–	–	–	421,257,530	273,655,757	694,913,287
Remeasurement gain on net accrued retirement liability	–	–	–	–	3,308,209	–	–	3,308,209	143,396	3,451,605
Movement in cumulative translation adjustment	–	–	–	–	–	24,653,465	–	24,653,465	–	24,653,465
Total comprehensive income	–	–	–	421,257,530	3,308,209	24,653,465	–	449,219,204	273,799,153	723,018,357
Issuance of stocks	157,975,512	600,306,945	–	–	–	–	–	758,282,457	–	758,282,457
Cash dividends	–	–	–	(28,435,592)	–	–	–	(28,435,592)	(65,900,000)	(94,335,592)
Reversal of appropriation	–	–	(138,589,220)	138,589,220	–	–	–	–	–	–
Increase in non-controlling interests:										
Deposit for future stock subscriptions	–	–	–	–	–	–	–	–	197,398,447	197,398,447
Stock issuances	–	–	–	–	–	–	–	–	12,500,000	12,500,000
BALANCES AT DECEMBER 31, 2018	**568,711,842**	**2,156,679,049**	**–**	**1,725,169,585**	**(6,287,192)**	**114,499,681**	**80,049,238**	**4,638,822,203**	**2,008,296,872**	**6,647,119,075**
Net income	–	–	–	292,835,761	–	–	–	292,835,761	241,096,895	533,932,656
Remeasurement loss on net accrued retirement liability	–	–	–	–	(3,833,493)	–	–	(3,833,493)	(1,613,474)	(5,446,967)
Total comprehensive income (loss)	–	–	–	292,835,761	(3,833,493)	–	–	289,002,268	239,483,421	528,485,689
Cash dividends	–	–	–	–	–	–	–	–	(76,000,000)	(76,000,000)
Increase in non-controlling interests - stock issuances (excluding previous deposits for future stock subscriptions issued during the year)	–	–	–	–	–	–	–	–	166,907,053	166,907,053
Derecognition of deferred tax assets (Note 3)	–	–	–	(353,707)	–	–	–	(353,707)	(348,094)	(701,801)
BALANCES AT DECEMBER 31, 2019	**₱568,711,842**	**₱2,156,679,049**	**₱–**	**₱2,017,651,639**	**(₱10,120,685)**	**₱114,499,681**	**₱80,049,238**	**₱4,927,470,764**	**₱2,338,339,252**	**₱7,265,810,016**

See accompanying Notes to Consolidated Financial Statements

PETROENERGY RESOURCES CORPORATION AND SUBSIDIARIES
CONSOLIDATED STATEMENTS OF CASH FLOWS

	Years Ended December 31		
	2019	2018	2017
CASH FLOWS FROM OPERATING ACTIVITIES			
Income before income tax	**₱546,112,470**	₱713,075,767	₱369,464,006
Adjustments for:			
Depletion, depreciation and amortization (Notes 10, 13 and 15)	**486,048,073**	434,796,786	381,352,035
Interest expense (Notes 13 and 17)	**409,690,469**	388,377,540	357,577,576
Share in net income of a joint venture (Note 12)	**(97,552,085)**	(118,849,158)	(75,447,359)
Interest income (Notes 6, 7 and 9)	**(44,025,392)**	(43,860,614)	(18,768,841)
Net unrealized foreign exchange loss (gain)	**4,884,642**	(6,070,411)	2,386,074
Accretion expense (Note 18)	**4,505,825**	4,309,762	3,353,344
Movement in accrued retirement liability	**(397,681)**	3,227,826	672,715
Gain on sale of equipment (Note 24)	**(345,134)**	(500,830)	(373,214)
Net loss (gain) on fair value changes on financial assets at fair value through profit or loss (Note 8)	**242,610**	575,624	(916,183)
Dividend income (Note 8)	**(61,586)**	(83,050)	(81,442)
Impairment loss (reversal) [Notes 10 and 11]	**–**	(54,317,979)	97,999,403
Operating income before working capital changes	**1,309,102,211**	1,320,681,263	1,117,218,114
Decrease (increase) in:			
Receivables	**22,257,025**	29,555,146	3,759,049
Other current assets	**(151,914,259)**	(191,380,576)	(24,274,161)
Input VAT	**81,022,587**	16,830,534	(91,827,534)
Increase in accounts payable and accrued expenses	**19,522,566**	78,792,689	46,501,192
Cash generated from operations	**1,279,990,130**	1,254,479,056	1,051,376,660
Interest received	**44,531,743**	47,208,947	19,937,103
Income taxes paid, including movement in creditable withholding taxes	**(16,194,063)**	(15,200,938)	(16,381,961)
Net cash provided by operating activities	**1,308,327,810**	1,286,487,065	1,054,931,802
CASH FLOWS FROM INVESTING ACTIVITIES			
Payments for:			
Acquisitions of property, plant and equipment (Note 10)	**(941,313,683)**	(117,710,922)	(1,025,542,945)
Deferred development costs (Note 15)	**(39,144,180)**	(61,165,900)	(104,230,488)
Advances to contractors (Note 15)	**(29,300,000)**	–	–
Deferred oil exploration costs (Note 11)	**(19,606,158)**	(47,680,995)	(12,679,624)
Acquisitions of intangibles (Note 15)	**(9,821,503)**	(17,171,106)	(872,356)
Withdrawal from (contribution to) restricted cash (Note 9)	**160,000,000**	(303,666,050)	–
Dividends received (Notes 8 and 12)	**60,061,586**	83,050	81,336
Proceeds from sale of property, plant and equipment	**1,839,579**	500,831	373,215
Decrease (increase) in other noncurrent assets	**96,167,613**	(183,720,035)	(10,114,590)
Net cash used in investing activities	**(721,116,746)**	(730,531,127)	(1,152,985,452)

(Forward)

	Years Ended December 31		
	2019	2018	2017
CASH FLOWS FROM FINANCING ACTIVITIES			
Proceeds from:			
Availments of long-term debt - net of deferred financing costs (Note 17)	**₱546,347,841**	₱317,804,356	₱1,683,167,766
Issuance of stocks to non-controlling interests (Note 29)	**166,907,053**	12,500,000	1,300,003
Deposits for future stock subscriptions to non-controlling interests (Note 29)	**–**	197,398,447	136,415,015
Issuance of stocks by the Parent Company (Note 19)	**–**	758,282,457	–
Payments of:			
Loans (Notes 17 and 30)	**(940,520,781)**	(1,177,263,636)	(940,163,636)
Interest (Notes 13, 17 and 30)	**(382,505,451)**	(396,054,782)	(387,066,963)
Dividends to non-controlling interests (Notes 29 and 30)	**(76,000,000)**	(65,900,000)	(35,000,000)
Principal portion of lease liabilities (Note 13)	**(17,958,027)**	–	–
Dividends by the Parent Company (Note 19)	**(9,500)**	(28,435,592)	(5,642)
Net cash used in financing activities	**(703,738,865)**	(381,668,750)	458,646,543
NET EFFECT OF FOREIGN EXCHANGE RATE CHANGES ON CASH AND CASH EQUIVALENTS	**(4,884,642)**	9,702,056	1,415,045
NET INCREASE (DECREASE) IN CASH AND CASH EQUIVALENTS	**(121,412,443)**	183,989,244	362,007,938
CASH AND CASH EQUIVALENTS AT BEGINNING OF YEAR	**1,188,110,520**	1,004,121,276	642,113,338
CASH AND CASH EQUIVALENTS AT END OF YEAR (Note 6)	**₱1,066,698,077**	₱1,188,110,520	₱1,004,121,276

See accompanying Notes to Consolidated Financial Statements.

1. **Corporate Information**

a. Organization

PetroEnergy Resources Corporation ("PERC" or "PetroEnergy" or the "Parent Company") is a publicly-listed domestic corporation. Its registered office and principal place of business is 7th Floor, JMT Building, ADB Avenue, Ortigas Center, Pasig City.

PERC was organized on September 29, 1994 as Petrotech Consultants, Inc. to provide specialized technical services to its then parent company, Petrofields Corporation, and to companies exploring for oil in the Philippines.

In 1997, PERC simultaneously adopted its present name and changed its primary purpose to oil exploration and development and mining activities. Subsequently in 1999, PERC assumed Petrofields' oil exploration contracts in the Philippines and the Production Sharing Contract covering the Etame discovery block in Gabon, West Africa.

On August 11, 2004, PERC's shares of stock were listed at the Philippine Stock Exchange (PSE) by way of introduction.

In 2009, following the enactment of Republic Act No. 9513, otherwise known as the "Renewable Energy Act of 2008" (RE Law), PERC amended its articles of incorporation to include among its purposes the business of generating power from renewable sources such as, but not limited to, biomass, hydro, solar, wind, geothermal, ocean and such other renewable sources of power.

On March 31, 2010, PERC incorporated PetroGreen Energy Corporation ("PetroGreen" or "PGEC"), its 90%-owned subsidiary, to act as its renewable energy arm and holding company. PGEC ventured into renewable energy development and power generation through its subsidiaries and affiliate: (a) Maibarara Geothermal, Inc. ("MGI", 65%-owned) - owner and Renewable Energy (RE) developer of the 20 MW Maibarara Geothermal Power Project (MGPP-1) in Santo Tomas, Batangas and its expansion, the 12 MW MGPP-2; (b) PetroSolar Corporation ("PetroSolar", 56%-owned) - owner and RE developer of the 50 MW_{DC} Tarlac Solar Power Project (TSPP-1) in Tarlac City and its 20 MW_{DC} expansion (TSPP-2); and (c) PetroWind Energy, Inc. ("PetroWind", 40%-owned) - owner and developer of the 36 MW Nabas Wind Power Project (NWPP-1) in Nabas and Malay, Aklan.

MGI and PetroSolar are effectively indirect subsidiaries of PetroEnergy through PetroGreen. PetroGreen owns majority of the voting power of MGI and PetroSolar. PetroEnergy, PetroGreen, MGI and PetroSolar are collectively referred to as the "Group" and were incorporated in the Philippines.

b. Nature of Operations

The Group's four (4) main energy businesses are: (a) upstream oil exploration and development, and power generation from renewable energy resources such as, (b) geothermal, (c) solar, and (d) wind, through the Group's affiliate, PetroWind.

Upstream Oil Exploration and Development

Petroleum production is on-going in the Etame (Gabon) concession, while the other petroleum concessions in the Philippines are still in the advanced exploration stages or pre-development stages.

Geothermal Energy
The geothermal projects are the 20 MW MGPP-1 in Sto. Tomas, Batangas that started commercial operations on February 8, 2014 and its expansion, the 12 MW MGPP-2 that started commercial operations on April 30, 2018.

Solar Energy
The Solar power projects are the 50 MW_{DC} TSPP-1 in Tarlac City, Tarlac that started commercial operations on February 10, 2016 and its 20 MW_{DC} expansion (TSPP-2) which has been commissioned and tested in April-22 2019 and is now awaiting the issuance of a Certificate of Compliance (COC) from the Energy Regulatory Commission (ERC).

Wind Energy
The wind energy project is the 36-MW NWPP-1 in Nabas, Aklan, where PetroWind has a wind farm.

c. Approval of Consolidated Financial Statements
The accompanying consolidated financial statements were approved and authorized for issue by the Board of Directors (BOD) on June 22, 2020.

2. Basis of Preparation

Basis of Preparation
The accompanying consolidated financial statements have been prepared under the historical cost basis, except for financial assets carried at fair value through profit or loss (FVTPL) which are measured at fair value and crude oil inventory which is valued at net realizable value (NRV).

The financial statements are presented in Philippine Peso (PHP or ₱), which is the Parent Company's functional currency. All amounts are rounded to the nearest PHP unless otherwise stated.

Statement of Compliance
The accompanying consolidated financial statements have been prepared in compliance with Philippine Financial Reporting Standards (PFRS).

3. Changes in Accounting Policies

The accounting policies adopted are consistent with those of the previous financial year, except that the Group has adopted the following new accounting pronouncements starting January 1, 2019. Adoption of these pronouncements did not have any significant impact on the Group's financial position or performance unless otherwise indicated.

- PFRS 16, *Leases*

PFRS 16 supersedes PAS 17, *Leases*, Philippine Interpretation IFRIC 4, *Determining whether an Arrangement contains a Lease*, Philippine Interpretation SIC-15, *Operating Leases-Incentives* and Philippine Interpretation SIC-27, *Evaluating the Substance of Transactions Involving the Legal Form of a Lease*. The standard sets out the principles for the recognition, measurement, presentation and disclosure of leases and requires lessees to recognize most leases on the balance sheet.

Lessor accounting under PFRS 16 is substantially unchanged from accounting under PAS 17. Lessors will continue to classify all leases using the same classification principle as in PAS 17 and distinguish between two types of leases: operating and finance leases. Therefore, PFRS 16 did not have an impact for leases where the Group is the lessor.

The Group adopted PFRS 16 using the modified retrospective method of adoption with the date of initial application of January 1, 2019. Under this method, the standard is applied retrospectively with the cumulative effect of initially applying the standard recognized at the date of initial application. The Group has not restated the comparative information, which continues to be reported under PAS 17.

The Group elects to apply the standard to contracts that were previously identified as leases applying PAS 17 and Philippine Interpretation IFRIC-4.

The Group has lease contracts for office spaces, land, vehicles, and parking slots, among others. Before the adoption of PFRS 16, the Group classified each of its leases (as lessee) at the inception date as either a finance lease or an operating lease. The Group's right-of-use assets and lease liabilities primarily relate to leases of land and office spaces.

Upon adoption of PFRS 16, the Group applied a single recognition and measurement approach for all leases except for short-term leases and leases of low-value assets. The Group recognized right-of-use assets and lease liabilities for those leases previously classified as operating leases, except for short-term leases and leases of low-value assets. The right-of-use assets were recognized based on the carrying amount as if the standard had always been applied, apart from the use of incremental borrowing rate at the date of initial application. In some leases, the right-of-use asset were recognized based on the amount equal to the lease liabilities, adjusted for prepaid rent and accrued rent previously recognized. Lease liabilities were recognized based on the present value of the remaining lease payments, discounted using the incremental borrowing rate at the date of initial application.

The Group also applied the available practical expedients wherein it:
- Applied the short-term leases exemptions to leases with lease term that ends within 12 months of the date of initial application; and
- Used hindsight in determining the lease term where the contract contained options to extend or terminate the lease.

The Parent Company, as a member of the Gabon consortium, shares in the costs related to leasing assets to be used in the joint operation which is in accordance with Par. 20(d) of PFRS 11, *Joint Arrangements*, which states "A joint operator shall recognize in relation to its interest in a joint operation its expenses, including its share of any expenses incurred jointly". It has assessed that the contract for the charter of the Floating Production Storage and Offloading (FPSO) vessel is outside the scope of PFRS 16.

The impact of adoption of PFRS 16 as at January 1, 2019 is as follows:

	Increase (decrease)
Assets:	
Right-of-use assets	₱426,743,257
Other current assets	(98,672,221)
Deferred tax assets	(701,801)

(Forward)

	Increase (decrease)
Liabilities and equity:	
Lease liabilities	₱342,107,039
Accounts payable and accrued expenses	(14,036,003)
Retained earnings	(353,707)
Non-controlling interests	(348,094)

Based on the above, as at January 1, 2019:
- Right-of-use assets of ₱426,743,257 were recognized and presented separately in the consolidated statement of financial position.
- Lease liabilities of ₱342,107,039 were recognized.
- Prepaid rent, previously presented under "Other current assets", of ₱98,672,221 representing adjustment on straight-line recognition of lease under PAS 17 related to previous operating leases were derecognized.
- Accrued rent, previously presented under "Accounts payable and accrued expenses", of ₱14,036,003 representing adjustment on straight-line recognition of lease under PAS 17 were derecognized.
- The Group invoked the initial recognition exemption of deferred tax as at January 1, 2019. Accordingly, the deferred tax asset related to accrued rent amounting to ₱701,801 is derecognized.
- The net effect of these adjustments was adjusted to retained earnings (₱353,707) and non-controlling interests (₱348,094).

The lease liabilities at as January 1, 2019 as can be reconciled to the operating lease commitments as of December 31, 2018 follow:

Operating lease commitments as at December 31, 2018	₱828,903,708
Weighted average incremental borrowing rate at January 1, 2019	9.64%
Discounted operating lease commitments at January 1, 2019	342,334,690
Less: Commitments relating to leases of small assets	(227,651)
Lease liabilities recognized at January 1, 2019	₱342,107,039

Due to the adoption of PFRS 16, the Company's net income before tax in 2019 decreased because depreciation of the right-of-use assets and interest expense on lease liability is higher than the rent expense previously recognized under PAS 17.

- Philippine Interpretation IFRIC-23, *Uncertainty over Income Tax Treatments*

  The Interpretation addresses the accounting for income taxes when tax treatments involve uncertainty that affects the application of PAS 12, *Income Taxes*. It does not apply to taxes or levies outside the scope of PAS 12, nor does it specifically include requirements relating to interest and penalties associated with uncertain tax treatments. The Interpretation specifically addresses the following:

  - Whether an entity considers uncertain tax treatments separately
  - The assumptions an entity makes about the examination of tax treatments by taxation authorities
  - How an entity determines taxable profit (tax loss), tax bases, unused tax losses, unused tax credits and tax rates
  - How an entity considers changes in facts and circumstances

The Group is required to determine whether to consider each uncertain tax treatment separately or together with one or more other uncertain tax treatments and use the approach that better predicts the resolution of the uncertainty. The entity shall assume that the taxation authority will examine amounts that it has a right to examine and have full knowledge of all related information when making those examinations. If an entity concludes that it is not probable that the taxation authority will accept an uncertain tax treatment, it shall reflect the effect of the uncertainty for each uncertain tax treatment using the method the entity expects to better predict the resolution of the uncertainty.

Upon adoption of the Interpretation, the Group has assessed whether it has any uncertain tax position. The Group applies significant judgement in identifying uncertainties over its income tax treatments. The Group determined based on its assessment that it is probable that its uncertain tax treatments will be accepted by the taxation authorities. Accordingly, the Interpretation did not have significant impact on the consolidated financial statements of the Group.

The Group also adopted the following new accounting pronouncements starting January 1, 2019:

- Amendments to PFRS 9, *Prepayment Features with Negative Compensation*
- Amendments to PAS 19, *Employee Benefits, Plan Amendment, Curtailment or Settlement*
- Amendments to PAS 28, *Long-term Interests in Associates and Joint Ventures*
- *Annual Improvements to PFRSs* 2015-2017 Cycle
  - Amendments to PFRS 3, *Business Combinations,* and PFRS 11, *Joint Arrangements*, *Previously Held Interest in a Joint Operation*
  - Amendments to PAS 12, *Income Tax Consequences of Payments on Financial Instruments Classified as Equity*
  - Amendments to PAS 23, *Borrowing Costs, Borrowing Costs Eligible for Capitalization*

Pronouncements issued but not yet effective are listed below. Unless otherwise indicated, the Group does not expect that the future adoption of the said pronouncements to have a significant impact on its financial statements. The Group intends to adopt these pronouncements when they become effective.

Effective beginning on or after January 1, 2020

- Amendments to PFRS 3, *Definition of a Business*

  The amendments to PFRS 3 clarify the minimum requirements to be a business, remove the assessment of a market participant's ability to replace missing elements, and narrow the definition of outputs. The amendments also add guidance to assess whether an acquired process is substantive and add illustrative examples. An optional fair value concentration test is introduced which permits a simplified assessment of whether an acquired set of activities and assets is not a business.

  An entity applies those amendments prospectively for annual reporting periods beginning on or after January 1, 2020, with earlier application permitted.

  These amendments will apply on future business combinations of the Group.

- Amendments to PAS 1, *Presentation of Financial Statements*, and PAS 8, *Accounting Policies, Changes in Accounting Estimates and Errors*, *Definition of Material*

  The amendments refine the definition of material in PAS 1 and align the definitions used across PFRSs and other pronouncements. They are intended to improve the understanding of the existing requirements rather than to significantly impact an entity's materiality judgements.

  An entity applies those amendments prospectively for annual reporting periods beginning on or after January 1, 2020, with earlier application permitted.

Effective beginning on or after January 1, 2021

- PFRS 17, *Insurance Contracts*

  PFRS 17 is a comprehensive new accounting standard for insurance contracts covering recognition and measurement, presentation and disclosure. Once effective, PFRS 17 will replace PFRS 4, *Insurance Contracts*. This new standard on insurance contracts applies to all types of insurance contracts (i.e., life, non-life, direct insurance and re-insurance), regardless of the type of entities that issue them, as well as to certain guarantees and financial instruments with discretionary participation features. A few scope exceptions will apply.

  The overall objective of PFRS 17 is to provide an accounting model for insurance contracts that is more useful and consistent for insurers. In contrast to the requirements in PFRS 4, which are largely based on grandfathering previous local accounting policies, PFRS 17 provides a comprehensive model for insurance contracts, covering all relevant accounting aspects. The core of PFRS 17 is the general model, supplemented by:
  - A specific adaptation for contracts with direct participation features (the variable fee approach)
  - A simplified approach (the premium allocation approach) mainly for short-duration contracts

  PFRS 17 is effective for reporting periods beginning on or after January 1, 2021, with comparative figures required. Early application is permitted.

  The adoption is not applicable to the Group since none of the entities within the Group have activities that are predominantly connected with insurance or issue insurance contracts.

Deferred effectivity

- Amendments to PFRS 10, *Consolidated Financial Statements*, and PAS 28, *Sale or Contribution of Assets between an Investor and its Associate or Joint Venture*

  The amendments address the conflict between PFRS 10 and PAS 28 in dealing with the loss of control of a subsidiary that is sold or contributed to an associate or joint venture. The amendments clarify that a full gain or loss is recognized when a transfer to an associate or joint venture involves a business as defined in PFRS 3. Any gain or loss resulting from the sale or contribution of assets that does not constitute a business, however, is recognized only to the extent of unrelated investors' interests in the associate or joint venture.

  On January 13, 2016, the Financial Reporting Standards Council deferred the original effective date of January 1, 2016 of the said amendments until the International Accounting Standards Board (IASB) completes its broader review of the research project on equity accounting that may result in the simplification of accounting for such transactions and of other aspects of accounting for associates and joint ventures.

The Group continues to assess the impact of the above new and amended accounting standards and interpretations effective subsequent to 2019 on the Group's financial statements in the period of initial application. Additional disclosures required by these amendments will be included in the financial statements when these amendments are adopted.

4. **Summary of Significant Accounting Policies**

Basis of Consolidation

The consolidated financial statements comprise the financial statements of the Group as at December 31, 2019 and 2018 and for each of the three years in the period ended December 31, 2019. The financial statements of the subsidiaries are prepared in the same reporting year as the Group, using consistent accounting policies.

Below are the Group's subsidiaries, which are all incorporated in the Philippines, with its respective percentage ownership as of December 31, 2019, 2018 and 2017:

PetroGreen	90%
Percentage share of PetroGreen in its subsidiaries:	
MGI	65%
PetroSolar	56%
Navy Road Development Corporation (NRDC)	100%

Subsidiaries are entities controlled by PERC. PERC controls an investee if and only if PERC has:

a) power over the investee (i.e. existing rights that give it the current ability to direct the relevant activities of the investee);
b) exposure, or rights, to variable returns from its involvement with the investee; and
c) the ability to use its power over the investee the amount of the investor's returns.

When PERC has less than a majority of the voting or similar rights of an investee, PERC considers all relevant facts and circumstances in assessing whether it has power over an investee, including:

a) the contractual arrangement with the other vote holders of the investee;
b) rights arising from other contractual arrangements; and
c) the Group's voting rights and potential voting rights.

PERC re-assesses whether or not it controls an investee if facts and circumstances indicate that there are changes to one or more of the three elements of control. Consolidations of a subsidiary begins when PERC obtains control over the subsidiary and ceases when PERC loses control of the subsidiary. Assets, liabilities, income and expenses of a subsidiary acquired or disposed of during the year are included in the consolidated statement of comprehensive income from the date PERC gains control until the date PERC ceases to control the subsidiary.

The consolidated financial statements are prepared using uniform accounting policies for like transactions and other events in similar circumstances. Adjustments where necessary are made to ensure consistency with the policies adopted by the Group. All intra-group balances and transactions, intra-group profits and expenses and gains and losses are eliminated during consolidation. All intra-group balances, transactions, income and expenses and profit and losses are eliminated in full.

A change in the ownership interest of a subsidiary, without loss of control, is accounted for as an equity transaction, as transactions with the owners in their capacity as owners. For purchases from non-controlling interests, the difference between any consideration paid and the relevant share acquired of the carrying value of net assets of the subsidiary is recorded in equity. Gains or losses on disposals to non-controlling interests are also recorded in equity.

If the Group loses control over a subsidiary, it:

- derecognizes the assets (including goodwill) and liabilities of the subsidiary, the carrying amount of any non-controlling interest and the cumulative translation differences recorded in equity.
- recognizes the fair value of the consideration received, the fair value of any investment retained and any surplus or deficit in the consolidated statement of comprehensive income.
- reclassifies the parent's share of components previously recognized in other comprehensive income (OCI) to the consolidated statement of comprehensive income or retained earnings, as appropriate.

Non-controlling interests are presented separately from the Parent Company's equity. The portion of profit or loss and net assets in subsidiaries not wholly owned are presented separately in the consolidated statement of comprehensive income and consolidated statement of changes in equity, and within equity in the consolidated statement of financial position.

Cash and Cash Equivalents

Cash includes cash on hand and in banks. Cash equivalents are short-term, highly liquid investments that are readily convertible to known amounts of cash with original maturities of three (3) months or less from the dates of acquisition and that are subject to an insignificant risk of change in value.

Financial Instruments

A financial instrument is any contract that gives rise to a financial asset of one entity and a financial liability or equity instrument of another entity.

Financial assets - Initial recognition and measurement

Financial assets are classified, at initial recognition, as subsequently measured at amortized cost, fair value through other comprehensive income (FVTOCI), and FVTPL.

The classification of financial assets at initial recognition depends on the financial asset's contractual cash flow characteristics and the Group's business model for managing them. The Group initially measures a financial asset at its fair value plus, in the case of a financial asset not at fair value through profit or loss, transaction costs.

In order for a financial asset to be classified and measured at amortized cost or fair value through OCI, it needs to give rise to cash flow that are 'solely payments of principal and interest (SPPI)' on the principal amount outstanding. This assessment is referred to as the SPPI test and is performed at an instrument level.

The Group's business model for managing financial assets refers to how it manages its financial assets in order to generate cash flows. The business model determines whether cash flows will result from collecting contractual cash flows, selling the financial assets, or both.

Subsequent measurement
For purposes of subsequent measurement, financial assets are classified in four categories:

- Financial assets at amortized cost (debt instruments)
- Financial assets at FVTOCI with recycling of cumulative gains and losses (debt instruments)
- Financial assets designated at FVTOCI with no recycling of cumulative gains and losses upon derecognition (equity instruments)
- Financial assets at FVTPL

The Group has no financial asset classified as financial assets at FVTOCI.

Financial assets at amortized cost (debt instruments)
This category is the most relevant to the Group. The Group measures financial assets at amortized cost if both of the following conditions are met:

- the financial asset is held within a business model with the objective to hold financial assets in order to collect contractual cash flows; and
- the contractual terms of the financial asset give rise on specified dates to cash flows that are solely payments of principal and interest on the principal amount outstanding.

Financial assets at amortized cost are subsequently measured using the effective interest (EIR) method and are subject to impairment. Gains and losses are recognized in profit or loss when the asset is derecognized, modified or impaired.

The Group's financial assets at amortized cost include cash and cash equivalents, receivables, restricted cash and refundable deposits.

Financial assets at FVTPL
Financial assets at fair value through profit or loss include financial assets held for trading, financial assets designated upon initial recognition at fair value through profit or loss, or financial assets mandatorily required to be measured at fair value. Financial assets are classified as held for trading if they are acquired for the purpose of selling or repurchasing in the near term. Derivatives, including separated embedded derivatives, are also classified as held for trading unless they are designated as effective hedging instruments. Financial assets with cash flows that are not solely payments of principal and interest are classified and measured at fair value through profit or loss, irrespective of the business model. Notwithstanding the criteria for debt instruments to be classified at amortized cost or at fair value through OCI, as described above, debt instruments may be designated at fair value through profit or loss on initial recognition if doing so eliminates, or significantly reduces, an accounting mismatch.

Financial assets at fair value through profit or loss are carried in the consolidated statement of financial position at fair value with net changes in fair value recognized in the consolidated statement of profit or loss.

This category includes derivative instruments and listed equity investments which the Group had not irrevocably elected to classify at fair value through OCI. Dividends on listed equity investments are also recognized as other income in the consolidated statement of profit or loss when the right of payment has been established.

The Group's financial assets at FVTPL includes marketable equity securities and investment in golf club shares.

Impairment of financial assets
The Group recognizes an allowance for ECLs for all debt instruments not held at FVTPL. ECLs are based on the difference between the contractual cash flows due in accordance with the contract and all the cash flows that the Group expects to receive, discounted at an approximation of the original effective interest rate. The expected cash flows will include cash flows from the sale of collateral held or other credit enhancements that are integral to the contractual terms.

ECLs are recognized in two stages. For credit exposures for which there has not been a significant increase in credit risk since initial recognition, ECLs are provided for credit losses that result from default events that are possible within the next 12-months (a 12-month ECL). For those credit exposures for which there has been a significant increase in credit risk since initial recognition, a loss allowance is required for credit losses expected over the remaining life of the exposure, irrespective of the timing of the default (a lifetime ECL).

The Group may consider a financial asset to be in default when internal or external information indicates that the Group is unlikely to receive the outstanding contractual amounts in full before taking into account any credit enhancements held by the Group. A financial asset is written off when there is no reasonable expectation of recovering the contractual cash flows.

Financial Liabilities - Initial recognition and measurement
Financial liabilities are classified, at initial recognition, as financial liabilities at FVTPL, loans and borrowings, payables, or as derivatives designated as hedging instruments in an effective hedge, as appropriate.

All financial liabilities are recognized initially at fair value and, in the case of loans and borrowings and payables, net of directly attributable transaction costs.

The Group's financial liabilities include accounts payable and accrued expenses, excluding statutory liabilities, loans payable and lease liabilities.

Subsequent measurement
The measurement of financial liabilities depends on their classification, as described below:

- Financial liabilities at FVTPL
- Loans and borrowings

Loans and borrowings
After initial recognition, interest-bearing loans and borrowings are subsequently measured at amortized cost using the EIR method. Gains and losses are recognized in profit or loss when the liabilities are derecognized as well as through the EIR amortization process.

Amortized cost is calculated by taking into account any discount or premium on acquisition and fees or costs that are an integral part of the EIR. The EIR amortization is included as finance costs in the statement of comprehensive income.

Derecognition of Financial Assets and Financial Liabilities

Financial assets

A financial asset (or where applicable, a part of a financial asset or part of a group of similar financial assets) is derecognized when:

- the rights to receive cash flows from the asset have expired;
- the Group retains the rights to receive cash flows from the asset, but has assumed an obligation to pay them in full without material delay to a third party under a "pass-through" arrangement; or
- the Group has transferred its right to receive cash flows from the asset and either (a) has transferred substantially all the risks and rewards of the asset, or (b) has neither transferred nor retained substantially all the risks and rewards of the asset, but has transferred control of the asset.

When the Group has transferred its rights to receive cash flows from an asset and has neither transferred nor retained substantially all the risks and rewards of the asset nor transferred control of the asset, the asset is recognized to the extent of the Group's continuing involvement in the asset. Continuing involvement that takes the form of a guarantee over the transferred asset is measured at the lower of the original carrying amount of the asset and the maximum amount of consideration that the Group could be required to repay.

Financial liabilities

A financial liability is derecognized when the obligation under the liability is discharged, cancelled or has expired.

Where an existing financial liability is replaced by another from the same lender on substantially different terms, or the terms of an existing liability are substantially modified, such an exchange or modification is treated as a derecognition of the original liability and the recognition of a new liability, and the difference in the respective carrying amounts is recognized in profit or loss.

Offsetting of Financial Instruments

Financial assets and financial liabilities are set off and the net amount is reported in the consolidated statement of financial position if there is a currently enforceable legal right to offset the recognized amounts and there is an intention to settle on a net basis, or to realize the asset and settle the liability simultaneously.

Fair Value Measurement

Fair value is the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date. The fair value measurement is based on the presumption that the transaction to sell the asset or transfer the liability takes place either:

- In the principal market for the asset or liability, or
- In the absence of a principal market, in the most advantageous market for the asset or liability.

The principal or the most advantageous market must be accessible to by the Group. The fair value of an asset or a liability is measured using the assumptions that market participants would use when pricing the asset or liability, assuming that market participants act in their economic best interest.

The Group uses valuation techniques that are appropriate in the circumstances and for which sufficient data are available to measure fair value, maximizing the use of relevant observable inputs and minimizing the use of unobservable inputs.

All assets and liabilities for which fair value is measured or disclosed in the financial statements are categorized within the fair value hierarchy, described as follows, based on the lowest level input that is significant to the fair value measurement as a whole:

- Level 1 - Quoted (unadjusted) market prices in active markets for identical assets or liabilities
- Level 2 - Valuation techniques for which the lowest level input that is significant to the fair value measurement is directly or indirectly observable
- Level 3 - Valuation techniques for which the lowest level input that is significant to the fair value measurement is unobservable

For assets and liabilities that are recognized in the financial statements on a recurring basis, the Group determines whether transfers have occurred between Levels in the hierarchy by re-assessing categorization (based on the lowest level input that is significant to the fair value measurement as a whole) at the end of each reporting period.

Other Current Assets
This account comprises restricted cash, supplies inventory, prepayments, crude oil inventory and advances to suppliers.

Restricted cash is recognized when the Group reserves a portion of its cash to pay loan interest charges and loan principal amortization and when cash is deposited in an escrow fund. Restricted cash that are expected to be realized for a period of no more than 12 months after the financial reporting period are classified as current assets, otherwise, these are classified as noncurrent assets.

Supplies inventory refers to parts purchased for used in operations. Supplies inventory are stated at the lower of cost or NRV. Cost is determined using the specific identification method. NRV is the current replacement cost of supplies inventory.

Prepayments are expenses paid in advance and recorded as asset before these are utilized. The prepaid expenses are apportioned over the period covered by the payment and charged to the appropriate accounts in profit or loss when incurred. Prepayments that are expected to be realized for a period of no more than 12 months after the financial reporting period are classified as current assets, otherwise, these are classified as noncurrent assets.

Crude oil inventory is stated at NRV at the time of production. NRV is the estimated selling price less cost to sell. The estimated selling price is the market values of crude oil inventory at the time of production.

Advances to suppliers are reclassified to the proper asset or expense account and deducted from the supplier’s billings as specified in the provisions of the contract.

Property, Plant and Equipment
Property, plant and equipment, except for land, are stated at cost less accumulated depletion, depreciation and amortization and any accumulated impairment losses. Land is stated at cost less any accumulated impairment losses. The initial cost of the property, plant and equipment consists of its purchase price, including any import duties, taxes and any directly attributable costs of bringing the assets to its working condition and location for its intended use and abandonment costs.

Expenditures incurred after the fixed assets have been put into operation, such as repairs and maintenance, are normally charged to the consolidated statement of comprehensive income in the period in which the costs are incurred. In situations where it can be clearly demonstrated that the expenditures have resulted in an increase in the future economic benefits expected to be obtained from the use of an item of property, plant and equipment beyond its originally assessed standard of performance, the expenditures are capitalized as an additional cost of property, plant and equipment.

Depreciation of an item of property, plant and equipment begins when it becomes available for use, i.e., when it is in the location and condition necessary for it to be capable of operating in the manner intended by management. Depreciation ceases at the earlier of the date that the item is classified as held for sale (or included in a disposal group that is classified as held for sale) in accordance with PFRS 5, *Non-current Assets Held for Sale and Discontinued Operations*, and the date the asset is derecognized.

Wells, platforms and other facilities related to oil operations are depleted using the units-of-production method computed based on estimates of proved reserves. The depletion base includes the exploration and development cost of the producing oilfields.

Land improvements consist of betterments, site preparation and site improvements that ready land for its intended use. These include excavation, non-infrastructure utility installation, driveways, sidewalks, parking lots, and fences.

Property, plant and equipment are depreciated and amortized using the straight-line method over the estimated useful lives of the assets as follows:

	Number of Years
Power plant, FCRS and production wells	25
Office condominium units	15
Land improvements	5
Transportation equipment	4
Office improvements	3
Office furniture and other equipment	2 to 3

The useful lives and depletion, depreciation and amortization methods are reviewed periodically to ensure that the period and method of depletion, depreciation and amortization are consistent with the expected pattern of economic benefits from items of property, plant and equipment.

Construction in progress represents property, plant and equipment under construction and is stated at cost. This includes the cost of construction to include materials, labor, professional fees, borrowing costs and other directly attributable costs. Construction in progress is not depreciated until such time the construction is completed.

Fully depreciated assets are retained in the accounts until they are no longer in use and no further depreciation is credited or charged to current operations.

When the assets are retired or otherwise disposed of, the cost and the related accumulated depletion, depreciation and amortization and any accumulated impairment losses are removed from the accounts and any resulting gain or loss is recognized in profit or loss.

Borrowing Costs

Borrowing costs directly attributable to the acquisition, construction or production of an asset that necessarily takes a substantial period of time to get ready for its intended use or sale are capitalized as part of the cost of the asset. All other borrowing costs are expensed in the period in which they occur. Borrowing costs consist of interest and other costs that an entity incurs in connection with the borrowing of funds.

Deferred Oil Exploration Costs

PERC follows the full cost method of accounting for exploration costs determined on the basis of each SC area. Under this method, all exploration costs relating to each SC are tentatively deferred pending determination of whether the area contains oil reserves in commercial quantities.

Deferred oil and gas exploration costs are assessed at each reporting period for possible indications of impairment. This is to confirm the continued intent to develop or otherwise extract value from the discovery. When this is no longer the case or is considered as areas permanently abandoned, the costs are written off through the consolidated statement of comprehensive income. Exploration areas are considered permanently abandoned if the related permits of the exploration have expired and/or there are no definite plans for further exploration and/or development.

The exploration costs relating to the SC where oil in commercial quantities are discovered are subsequently reclassified to “Wells, platforms and other facilities” shown under “Property and equipment” account in the consolidated statements of financial position upon substantial completion of the development stage. On the other hand, all costs relating to an abandoned SC are written off in the year the area is permanently abandoned. SCs are considered permanently abandoned if the SCs have expired and/or there are no definite plans for further exploration and/or development.

Deferred Development Costs - Geothermal included in Other Noncurrent Assets

All costs incurred in the geological and geophysical activities such as costs of topographical, geological and geophysical studies, rights of access to properties to conduct those studies, salaries and other expenses of geologists, geophysical crews, or others conducting those studies are charged to profit or loss in the year such costs are incurred.

If the results of initial geological and geophysical activities reveal the presence of geothermal resource that will require further exploration and drilling, subsequent exploration and drilling costs are accumulated and deferred under the “Other noncurrent assets” account in the consolidated statement of financial position.

These costs include the following:

- costs associated with the construction of temporary facilities;
- costs of drilling exploratory and exploratory type stratigraphic test wells, pending determination of whether the wells can produce proved reserves; and
- costs of local administration, finance, general and security services, surface facilities and other local costs in preparing for and supporting the drill activities, etc. incurred during the drilling of exploratory wells.

If tests conducted on the drilled exploratory wells reveal that these wells cannot produce proved reserves, the capitalized costs are charged to expense except when management decides to use the unproductive wells for recycling or waste disposal.

Once the project’s technical feasibility and commercial viability to produce proved reserves are established, the exploration and evaluation assets shall be reclassified to “Property, plant and equipment” and depreciated accordingly.

Deferred Development Costs - Solar Power Project included in Other Noncurrent Assets
These are costs incurred in the development of the solar plant expansion project. Costs are capitalized if the technological and economic feasibility is confirmed, usually when a project development has reached a defined milestone according to an established project management model. These costs include the following:

- costs incurred for the expansion of the solar plant project
- costs of administration, finance, general and security services and other costs attributed to the expansion of the project.

Deferred development costs of the Solar Power Project is recognized under "Other noncurrent assets" in the statement of financial position. Once the project's technical feasibility and commercial viability has been established, development costs shall be reclassified to "Property, plant and equipment" and depreciated accordingly.

Investment in a Joint Venture (JV)
A JV is a type of joint arrangement whereby the parties that have joint control of the arrangement have rights to the net assets of the joint venture. Joint control is the contractually agreed sharing of control of an arrangement, which exists only when decisions about the relevant activities require unanimous consent of the parties sharing control. Investment in a JV is accounted for under the equity method of accounting.

Under the equity method, the investment in a JV is initially recognized at cost. The carrying amount of the investment is adjusted to recognize changes in the Group's share of net assets of the JV since the acquisition date.

The consolidated statement of comprehensive income reflects the Group's share of the financial performance of the joint venture. Any change in OCI of those investees is presented as part of the Group's OCI. In addition, when there has been a change recognized directly in the equity of the JV, the Group recognizes its share of any changes, when applicable, in the consolidated statement of changes in equity. Unrealized gains and losses from transactions between the Group and the JV are eliminated to the extent of the interest of the JV.

The aggregate of the Group's share in profit or loss of a JV is shown under "Other income (charges)" in the consolidated statement of comprehensive income and represents profit or loss after tax and non-controlling interests in the subsidiaries of the JV.

The financial statements of the JV are prepared in the same reporting period of the Group. When necessary, adjustments are made to bring the accounting policies in line with those of the Group.

After application of the equity method for the investment in a JV, the Group determines whether it is necessary to recognize an impairment loss on its investment in a JV. At each reporting date, the Group determines whether there is objective evidence that the investment in JV is impaired. If there is such evidence, the Group calculates the amount of impairment as the difference between the recoverable amount of the JV and its carrying value, then recognizes the loss in the consolidated statement of comprehensive income.

Upon loss of joint control over the JV, the Group measures and recognizes any retained investment at its fair value. Any difference between the carrying amount of the joint venture upon loss of joint control and the fair value of the retained investment and proceeds from disposal is recognized in the consolidated statement of comprehensive income.

Intangible Assets
Intangible assets acquired separately are measured on initial recognition at cost. The cost of intangible assets acquired is their fair value as at the date of acquisition. Following initial recognition, intangible assets are carried at cost less accumulated amortization and accumulated impairment losses, if any.

Intangible assets with finite lives are amortized over their useful economic lives and assessed for impairment whenever there is an indication that the intangible asset may be impaired. The amortization period and the amortization method for an intangible asset with a finite useful life are reviewed at least at the end of each reporting period. Changes in the expected useful life or the expected pattern of consumption of future economic benefits embodied in the asset is accounted for by changing the amortization period or method, as appropriate, and are treated as changes in accounting estimates.

The amortization expense on intangible assets with finite lives is recognized in the consolidated statement of comprehensive income in the expense category consistent with the function of the intangible assets.

Intangible assets are amortized using the straight-line method over the estimated useful lives of the assets as follows:

	Number of Years
Land rights	25
Production license	10
Software license	1 to 3

Gains or losses arising from derecognition of an intangible asset are measured as the difference between the net disposal proceeds and the carrying amount of the asset and are recognized in the consolidated statement of comprehensive income when the asset is derecognized.

Investment Properties
Investment properties consist of land held for capital appreciation. Land is stated at cost less any impairment in value.

The initial cost of the investment properties comprises its purchase price and any directly attributable costs of bringing the asset to its working condition. Expenditures incurred after the investment properties have been put into operation, such as repairs and maintenance, are normally charged to expense in the year when costs are incurred. In situations where it can be clearly demonstrated that the expenditures have resulted in an increase in the future economic benefits expected to be obtained from the use of an item of investment properties beyond its originally assessed standard of performance, the expenditures are capitalized as an additional cost of investment properties.

Investment property is derecognized when either it has been disposed of or when the investment property is permanently withdrawn from use and no future economic benefit is expected from its disposal. Any gains or losses on the retirement or disposal of investment properties are recognized in the consolidated statement of comprehensive income in the year of retirement or disposal.

Transfers are made to investment properties when, and only when, there is a change in use, evidenced by the end of owner-occupation, commencement of an operating lease to another party or by the end of construction or development. Transfers are made from investment properties when, and only when, there is a change in use, evidenced by commencement of owner-occupation or commencement of development with a view to sell.

Interest in Joint Operations
A joint operation is a joint arrangement whereby the parties that have joint control of the arrangement have rights to the assets, and obligations for the liabilities, relating to the arrangement.

The Group recognized in relation to its interest in a joint operation its:
- assets, including its share of any assets held jointly
- liabilities, including its share of any liabilities incurred jointly
- revenue from the sale of its share of the output arising from the joint operation
- share of the revenue from the sale of the output by the joint operation
- expenses, including its share of any expenses incurred jointly

The Group accounts for the assets it controls and the liabilities it incurs, the expenses it incurs and the share of income that it earns from the sale of crude oil by the joint operations.

The Group's participating interest in the Etame block in Gabon, West Africa and participating interests in Philippine service contracts (SCs) are classified as joint operations.

Impairment of Nonfinancial Assets
The Group assesses at each reporting date whether there is an indication that an asset (e.g., property, plant and equipment, investment properties, deferred costs, intangible assets and right-of-use assets) may be impaired. If any such indication exists, or when annual impairment testing for an asset is required, the Group estimates the asset's recoverable amount. An asset's recoverable amount is the higher of an asset's or cash-generating unit's fair value less costs to sell and its value in use and is determined for an individual asset, unless the asset does not generate cash inflows that are largely independent of those from other assets or group of assets.

Where the carrying amount of an asset exceeds its recoverable amount, the asset is considered impaired and is written down to its recoverable amount. In assessing value in use, the estimated future cash flows are discounted to their present value using a discount rate that reflects current market assessments of the time value of money and the risks specific to the asset. In determining fair value less costs to sell, an appropriate valuation model is used. These calculations are corroborated by valuation multiples, quoted share prices for publicly traded companies or other available fair value indicators.

An assessment is made at each reporting date as to whether there is any indication that previously recognized impairment losses may no longer exist or may have decreased. If such indication exists, the Group makes an estimate of recoverable amount. A previously recognized impairment loss is reversed only if there has been a change in the estimates used to determine the asset's recoverable amount since the last impairment loss was recognized. If that is the case, the carrying amount of the asset is increased to its recoverable amount. That increased amount cannot exceed the carrying amount that would have been determined, net of depletion, depreciation and amortization had no impairment loss been recognized for the asset in prior years.

Such reversal is recognized in the consolidated statement of comprehensive income unless the asset is carried at revalued amount, in which case the reversal is treated as a revaluation increase.

Capital Stock and Additional Paid-in Capital
The Group records common stock at par value and additional paid-in capital in excess of the total contributions received over the aggregate par values of the equity shares. When the Group issues more than one class of stock, a separate account is maintained for each class of stock and the number of shares issued. Incremental costs incurred directly attributable to the issuance of new shares are shown in equity as a deduction from proceeds, net of tax. When any member of the Group purchases the

Group's capital stock (treasury shares), the consideration paid, including any attributable incremental costs, is deducted from equity attributable to the Group's equity holders until the shares are cancelled, reissued or disposed of. Where such shares are subsequently sold or reissued, any consideration received, net of any directly attributable incremental transaction costs and the related tax effects, is included in equity.

Deposits for Future Stock Subscriptions
Deposits for future stock subscriptions is recorded based on the redeemable amounts received and is presented under liabilities unless the following items were met for classification as part of equity:

a. the unissued authorized capital stock of the entity is insufficient to cover the amount of shares indicated in the contract;
b. there is BOD approval on the proposed increase in authorized capital stock (for which a deposit was received by the Group);
c. there is stockholders' approval of said proposed increase; and
d. the application for the approval of the proposed increase has been filed with the Securities and Exchange Commission (SEC).

Deposits represent subscription payments received from prospective investors for the Group's common shares which are yet to be issued upon approval by the SEC of the application for increase in the authorized capital stock. This will be reclassified to 'Capital stock' upon issuance of the subscribed shares.

Retained Earnings
Retained earnings represent the cumulative balance of consolidated net income, effects of changes in accounting policy and other capital adjustments, net of dividend declaration.

Unappropriated retained earnings represent the portion which can be declared as dividends to stockholders after considering the undistributed accumulated equity in a subsidiary, funds appropriated for corporate expansion projects or programs, restrictions under loan agreements and funds retained under special circumstances for probable contingencies.

Appropriated retained earnings represent the portion which has been restricted and therefore is not available for any dividend declaration.

Cumulative Translation Adjustment
Cumulative translation adjustment represents the resulting exchange differences in the remeasurement of accounts due to change in functional currency.

Equity Reserve
Equity reserve is made up of equity transactions other than equity contributions such as gain or loss resulting from increase or decrease of ownership without loss of control.

Dividend Distribution
Cash dividends on capital stock are recognized as a liability and deducted from equity when approved by the BOD.

Revenue Recognition
Revenue is recognized when the control of petroleum and electricity are transferred to the customer at an amount that reflects the consideration which the Group expects to be entitled in exchange for those goods and services. The Group has generally concluded that it is the principal in its revenue arrangements.

Electricity sales
Revenues from sale of electricity using renewable energy is consummated and recognized over time whenever the electricity generated by the Group is transmitted through the transmission line designated by the buyer, for a consideration.

Oil revenues
Revenue from crude oil is recognized at a point in time when the control of the goods has transferred from the sellers (Consortium) to the buyer at the delivery point. Revenue is measured at the fair value of the consideration received.

The revenue recognized from the sale of petroleum products pertains to the Group's share in revenue from the joint operations. The revenue sharing is accounted for in accordance with PFRS 11.
Interest income
Interest income is recognized as the interest accrues taking into account the effective yield on the asset.

Share in net income of a joint venture
Share in net income of a joint venture represents the Group's share in profit or loss of its affiliate, PWEI.

Dividend income
Dividend income is recognized according to the terms of the contract, or when the right of the payment has been established.

Miscellaneous income
Miscellaneous income is recognized when the Group's right to receive the payment is established.

Costs and Expenses
Cost of electricity sales
Costs of electricity sales pertain to direct costs in generating electricity power which includes operating and maintenance costs (O&M) for power plant and fluid collection and reinjection system (FCRS), depreciation and other costs directly attributed to producing electricity.

Oil production
Oil production are costs incurred to produce and deliver crude oil inventory, including transportation, storage and loading, among others.

Change in crude oil inventory
Change in crude oil inventory pertains to the movement of beginning and ending crude oil inventory charged as part of cost of sales.

General and administrative expenses
General and administrative expenses constitute costs of administering the business.

Costs and expenses are recognized as incurred.

Income Taxes
Current Tax
Current tax assets and liabilities for the current and prior periods are measured at the amount expected to be recovered from or paid to the taxation authorities. The tax rates and tax laws used to compute the amounts are those that are enacted or substantively enacted at the reporting date.

Deferred Tax
Deferred tax is provided using the balance sheet liability method on all temporary differences at the reporting date between the tax bases of assets and liabilities and their carrying amounts for financial reporting purposes.

Deferred tax liabilities are recognized for all taxable temporary differences except to the extent that the deferred tax liabilities arise from the: a) initial recognition of goodwill; or b) the initial recognition of an asset or liability in a transaction which is not: i) a business combination; and ii) at the time of the transaction, affects neither accounting profit nor taxable profit or loss.

Deferred tax assets are recognized for all deductible temporary differences with certain exceptions, and carryforward benefits of unused tax credits from excess minimum corporate income tax (MCIT) over RCIT and unused net operating loss carryover (NOLCO), to the extent that it is probable that sufficient taxable income will be available against which the deductible temporary differences and carryforward benefits of unused tax credits from excess MCIT and unused NOLCO can be utilized. Deferred tax assets, however, are not recognized when it arises from the: a) initial recognition of an asset or liability in a transaction that is not a business combination; and b) at the time of transaction, affects neither the accounting income nor taxable profit or loss.

The carrying amounts of deferred tax assets are reviewed at each reporting date and reduced to the extent that it is no longer probable that sufficient taxable income will be available to allow all or part of the deferred tax assets to be utilized. Unrecognized deferred tax assets are reassessed at each reporting date, and are recognized to the extent that it has become probable that future taxable income will allow the deferred tax assets to be recovered. The Group does not recognize deferred tax assets and deferred tax liabilities that will reverse during the income tax holiday (ITH).

Deferred tax assets and liabilities are measured at the tax rates that are applicable to the period when the asset is realized or the liability is settled, based on tax rates (and tax laws) that have been enacted or substantively enacted as of the reporting date.

Deferred tax relating to items recognized outside profit or loss is recognized outside profit or loss. Deferred tax items are recognized in correlation to the underlying transaction either in profit or loss or other comprehensive income.

Deferred tax assets and deferred tax liabilities are offset if a legally enforceable right exists to set off current tax assets against current tax liabilities and the deferred taxes relate to the same taxable entity and the same taxation authority.

Value-Added Tax (VAT)
Revenues, expenses and assets are recognized net of the amount of VAT, if applicable.

When VAT from sales of goods or services (output VAT) exceeds VAT passed on from purchases of goods or services (input VAT), the excess is recognized as payable in the consolidated statement of financial position. When VAT passed on from purchases of goods or services (input VAT) exceeds VAT from sales of goods and/or services (output VAT), the excess is recognized as an asset in the consolidated statement of financial position as part of “Other noncurrent assets” to the extent of the recoverable amount.

Leases - Effective January 1, 2019

Group as a lessee

The Group assesses at contract inception whether a contract is, or contains, a lease. That is, if the contract conveys the right to control the use of an identified asset for a period of time in exchange for consideration.

Right-of-use assets

The Group recognizes right-of-use assets at the commencement date of the lease. Right-of-use assets are measured at cost, less any accumulated depreciation and impairment losses, and adjusted for any remeasurement of lease liability. The cost of right-of-use assets includes the amount of lease liability recognized, and lease payments made at or before the commencement date less any lease incentives received and estimate of costs to be incurred by the lessee in dismantling and removing the underlying asset, restoring the site on which it is located or restoring the underlying asset to the condition required by the terms and conditions of the lease, unless those costs are incurred to produce inventories.

Unless the Group is reasonably certain to obtain ownership of the leased asset at the end of the lease term, the recognized right-of-use assets are depreciated on a straight-line basis over the shorter of its estimated useful life and the lease term, as follows.

	Number of Years
Office space	2
Land	18 to 25

Lease liabilities

At the commencement date of the lease, the Group recognizes lease liability measured at the present value of lease payments to be made over the lease term. The lease payments include fixed payments less any lease incentives receivable, variable lease payments that depend on an index or a rate, and amounts expected to be paid under residual value guarantees. The lease payments also include the exercise price of a purchase option reasonably certain to be exercised by the Group and payments of penalties for terminating a lease, if the lease term reflects the Group exercising the option to terminate. The variable lease payments that do not depend on an index or a rate are recognized as expense in the period on which the event or condition that triggers the payment occurs.

In calculating the present value of lease payments, the Group uses the incremental borrowing rate at the lease commencement date if the interest rate implicit in the lease is not readily determinable. After the commencement date, the amount of lease liability is increased to reflect the accretion of interest and reduced for the lease payments made. In addition, the carrying amount of lease liability is remeasured if there is a modification, a change in the lease term, a change in the in-substance fixed lease payments or a change in the assessment to purchase the underlying asset.

Short-term leases and leases of low-value assets

The Group applies the short-term lease recognition exemption to its short-term leases (i.e., those leases that have a lease term of 12 months or less from the commencement date and do not contain a purchase option). It also applies to the leases of low-value assets recognition exemption to leases that are considered of low value (i.e., below ₱250,000). Lease payments on short-term leases and leases of low-value assets are recognized as expense on a straight-line basis over the lease term.

Leases - Effective Prior to January 1, 2019

Group as a lessee

Leases where the lessor retains substantially all the risks and benefits of ownership of the asset are classified as operating leases. Operating lease payments are recognized as an expense in the profit and loss on a straight-line basis over the lease term. Minimum lease payments are recognized on a straight-line basis.

Group as a lessor (applicable to both years presented)

Leases where the Group does not transfer substantially all the risks and rewards of ownership of the assets are classified as operating leases. Lease payments received are recognized in profit or loss as income on a straight-line basis over the lease term.

Accrued Retirement Liability

The net defined benefit liability or asset is the aggregate of the present value of the defined benefit obligation at the end of the reporting period reduced by the fair value of plan assets (if any), adjusted for any effect of limiting a net defined benefit asset to the asset ceiling. The asset ceiling is the present value of any economic benefits available in the form of refunds from the plan or reductions in future contributions to the plan.

The cost of providing benefits under the defined benefit plans is actuarially determined using the projected unit credit method.

Defined benefit costs comprise the following:

- Service cost
- Net interest on the net defined benefit liability or asset
- Remeasurements of net defined benefit liability or asset

Service costs which include current service costs, past service costs and gains or losses on non-routine settlements are recognized as expense in the consolidated statement of comprehensive income. Past service costs are recognized when plan amendment or curtailment occurs. These amounts are calculated periodically by independent qualified actuaries.

Net interest on the net defined benefit liability or asset is the change during the period in the net defined benefit liability or asset that arises from the passage of time which is determined by applying the discount rate based on government bonds to the net defined benefit liability or asset. Net interest on the net defined benefit liability or asset is recognized as expense or income in the consolidated statement of comprehensive income.

Remeasurements comprising actuarial gains and losses, return on plan assets and any change in the effect of the asset ceiling (excluding net interest on defined benefit liability) are recognized immediately in OCI in the period in which they arise. Remeasurements are not reclassified to consolidated statement of comprehensive income in subsequent periods.

Plan assets are assets that are held by a long-term employee benefit fund. Plan assets are not available to the creditors of the Group nor can they be paid directly to the Group. Fair value of plan assets is based on market price information. When no market price is available, the fair value of plan assets is estimated by discounting expected future cash flows using a discount rate that reflects both the risk associated with the plan assets and the maturity or expected disposal date of those assets (or, if they have no maturity, the expected period until the settlement of the related obligations). If the fair value of the plan assets is higher than the present value of the defined benefit obligation, the measurement of the resulting defined benefit asset is limited to the present value of economic benefits available in the form of refunds from the plan or reductions in future contributions to the plan.

The Group's right to be reimbursed of some or all of the expenditure required to settle a defined benefit obligation is recognized as a separate asset at fair value when and only when reimbursement is virtually certain.

Asset Retirement Obligation (ARO)

The Group records present value of estimated costs of legal and constructive obligations required to restore the oilfields and plant sites upon termination of its operations. The nature of these restoration activities includes dismantling and removing structures, rehabilitating settling ponds, dismantling operating facilities, closure of plant and waste sites, and restoration, reclamation and re-vegetation of affected areas. The obligation generally arises when the asset is constructed or the ground or environment at the sites are disturbed. When the liability is initially recognized, the present value of the estimated cost is capitalized as part of the carrying amount of the ARO assets (included under "Property, plant and equipment") and ARO liability.

Liability and capitalized costs included in oil properties is equal to the present value of the Group's proportionate share in the total decommissioning costs of the consortium on initial recognition. Additional costs or changes in decommissioning costs are recognized as additions or charges to the corresponding assets and ARO when they occur.

For closed sites or areas, changes to estimated costs are recognized immediately in the consolidated statement of comprehensive income. If the decrease in liability exceeds the carrying amount of the asset, the excess shall be recognized immediately in profit or loss.

For the oil operation, the Group depreciates ARO assets based on units-of-production method.

For the renewable energy, the Group depreciates ARO assets on a straight-line basis over the estimated useful life of the related asset or the service contract term, whichever is shorter, or written off as a result of impairment of the related asset.

The Group regularly assesses the provision for ARO and adjusts the related liability and asset.

Foreign Currency-Denominated Transactions and Translation

The consolidated financial statements are presented in PHP, which is the Parent Company's functional and presentation currency. Transactions in foreign currencies are initially recorded in the functional currency using the exchange rate at date of transaction. Monetary assets and liabilities denominated in foreign currencies are reinstated to the functional currency using the closing exchange rate at reporting date.

All exchange differences are taken to the consolidated statement of comprehensive income. Non-monetary items that are measured in terms of historical cost in foreign currency are translated using the exchange rates as at the dates of initial transactions. Non-monetary items measured at fair value in a foreign currency are translated using the exchange rates at the date when the fair value was determined.

Earnings Per Share

Basic earnings per share is computed on the basis of the weighted average number of shares outstanding during the year after giving retroactive effect to any stock split or stock dividends declared and stock rights exercised during the current year, if any.

Diluted earnings per share is computed on the basis of the weighted average number of shares outstanding during the year plus the weighted average number of ordinary shares that would be issued on the conversion of all the dilutive potential ordinary shares into ordinary shares.

Segment Reporting
The Group's operating businesses are organized and managed separately according to the nature of the products and services provided, with each segment representing a strategic business unit that offers different products and services and serves different markets. Financial information on business segments is presented in Note 27 to the consolidated financial statements.

Provisions and Contingencies
Provisions are recognized when the Group has a present obligation (legal or constructive) as a result of a past event, it is probable that an outflow of resources embodying economic benefits will be required to settle the obligation and a reliable estimate can be made of the amount of the obligation. If the effect of the time value of money is material, provisions are determined by discounting the expected future cash flows at a pre-tax rate that reflects current market assessments of the time value of money and, where appropriate, the risks specific to the liability.

Where discounting is used, the increase in the provision due to the passage of time is recognized as an interest expense. Provisions are reviewed at each reporting date and adjusted to reflect the current best estimate.

Contingent liabilities are not recognized in the financial statements. They are disclosed unless the possibility of an outflow of resources embodying economic benefits is remote. Contingent assets are not recognized in the financial statements but are disclosed when an inflow of economic benefits is probable. Contingent assets are assessed continually to ensure that developments are appropriately reflected in the financial statements. If it has become virtually certain that an inflow of economic benefits will arise, the asset and the related income are recognized in the consolidated financial statements.

Events After the Reporting Period
Post year-end events that provide additional information about the Group's situation at the reporting date (adjusting events) are reflected in the financial statements, if any. Post year-end events that are not adjusting events are disclosed in the notes to consolidated financial statements when material.

5. Significant Accounting Judgments, Estimates and Assumptions

The preparation of the consolidated financial statements in compliance with PFRS requires the Group to make judgments, estimates and assumptions that affect the reported amounts of assets, liabilities, income and expenses and disclosure of contingent assets and contingent liabilities. Future events may occur which will cause the assumptions used in arriving at the estimates to change. The effects of any change in judgments, estimates and assumptions are reflected in the consolidated financial statements, as they become reasonably determinable.

Judgments, estimates and assumptions are continually evaluated and are based on historical experience and other factors, including expectations of future events that are believed to be reasonable under the circumstances.

Judgments

In the process of applying the Group's accounting policies, management has made the following judgments, apart from those involving estimations, which has the most significant effect on the amounts recognized in the consolidated financial statements:

Determination of Functional Currency

The Group determines its functional currency based on economic substance of underlying circumstances relevant to each entity within the Group. The functional currency has been determined to be the PHP based on the economic substance of the business circumstances of PetroEnergy, PetroGreen, MGI, and PetroSolar.

Capitalization of Deferred Oil Exploration Costs and Deferred Development Costs

Initial capitalization of costs is based on management's judgment that technological and economic feasibility is confirmed, usually when a product development project has reached a defined milestone according to an established project management model. If the accounting policy on capitalization of development costs are not met, such costs are expensed.

As of December 31, 2019 and 2018, the carrying value of deferred oil explorations costs amounted to ₱192.96 million and ₱230.33 million, respectively (see Note 11), and the Group's deferred development costs amounted to ₱6.61 million and ₱26.01 million as of December 31, 2019 and 2018, respectively (see Note 15).

Classification of Joint Arrangements

Judgment is required to determine when the Group has joint control over an arrangement, which requires an assessment of the relevant activities and when the decisions in relation to those activities require unanimous consent. The Group assesses their rights and obligations arising from the arrangement and specifically considers:

- the structure of the joint arrangement - whether it is structured through a separate vehicle
- when the arrangement is structured through a separate vehicle, the Group also considers the rights and obligations arising from:
  - the legal form of the separate vehicle
  - the terms of the contractual arrangement
  - other facts and circumstances, considered on a case by case basis

This assessment often requires significant judgment. A different conclusion about both joint control and whether the arrangement is a joint operation or a joint venture, may materially impact the accounting of the investment.

The Group's investment in PetroWind is structured in a separate incorporated entity. The Group and the parties to the agreement only have the right to the net assets of the joint venture through the terms of the contractual arrangement. Accordingly, the joint arrangement is classified as a joint venture. As of December 31, 2019 and 2018, the Group's investment in a joint venture amounted to ₱1.56 billion and ₱1.53 billion, respectively (see Note 12).

The Group and the parties to the agreement in investment in Gabon, West Africa and investments in petroleum concessions in the Philippines have joint control over its rights to the assets and obligations for the liabilities, relating to the arrangement. Accordingly, the joint arrangements are classified as joint operations (see Notes 10 and 11).

Estimates and Assumptions
The key assumptions concerning the future and other key sources of estimation uncertainty at the reporting date that have a significant risk of causing a material adjustment to the carrying amounts of assets and liabilities within the next financial year are discussed below.

Estimation of Geothermal Field Reserves
The Group performed volumetric reserve estimation to determine the reserves of the Maibarara geothermal field. As a requirement for project financing, The Group engaged at its own cost the New Zealand firm Sinclair Knight Merz (SKM) in 2011 to undertake a comprehensive third-party technical review of the Maibarara geothermal field. This review included analysis of the resource assessment performed in-house by the Group as well as a separate SKM reserve estimation and numerical modeling of the Maibarara reserves.

The Group's simulation indicated a mean (P50) proven reserves of 27.8 MW for 25 years. In contrast, SKM calculated the P50 reserves at 44 MW. At 90% probability (P90), the reserves calculated are 28 MW and 12 MW by SKM and the Group, respectively. SKM concluded that the approach taken by the Group is conservative as it limits reservoir thickness to depths where a maximum thickness of 280°C will be encountered although the measured temperature reached as high as 324°C. There is reasonable confidence that the 20 MW (gross) plant development is feasible as the P90 level appears also conservative as with the Group's approach. In addition, SKM identified indicated reserves, translating to 10 MW-26 MW in the area south of and outside the current area of development.

Also, there is a likely geothermal potential south of the proven area where two old wells were drilled and encountered high fluid temperatures (T ~ 300°C). MGI identified the southern block as a probable reserve area. SKM in 2011 suggested that the southern block can be classified as Indicated Resource based on the Australian Code as high temperatures have been intersected by the two wells. SKM estimated that the stored heat in the Southern Block has a resource potential equivalent to 12 MW for a project life of 25 years.

An updated reserves estimation using the stored-heat calculation was made in 2015 by the Group as a result of reservoir and production performance and the 2014 drilling campaign. The 2014 drilling proved that the current resource area can produce around 33.1 MW, more than enough to meet the steam requirement of the existing 20 MW power plant plus the 12 MW expansion power plant. Using Monte Carlo simulation to estimate the reserves, the proven resource area has an 80% probability of delivering between 18.1 MW to 50.9 MW over a 25-year operating period. This Monte Carlo simulation also showed that the expected mean reserve for the proven resource area is 30.4 MW for 25 years.

The Group engaged a U.S. firm Geothermal Science, Inc. (GSI) in 2015 to perform a third-party technical appraisal of the resource for the planned 12 MW expansion. This third-party review was also made as a requirement for the project financing of MGPP-2 or M2. GSI adopted the technique from the US Geological Survey Circular 790 in making the probabilistic calculation of the geothermal reserves at Maibarara. Based on this approach, GSI estimates that Maibarara has a minimum or proven reserves of 40.2 MW, P90 for 25 years plant life and Most Likely Reserve of 61.6 MW, P50 for 25 years of plant life.

The Group commenced producing power commercially last February 8, 2014. To date, the current production wells of M1 and M2 are capable of producing 33.1 MW. These production wells including the complement reinjection wells are concentrated on the proven resource area.

As of December 31, 2019 and 2018, there has been no significant change in the estimated reserves that would affect the carrying value and useful life of the Group's property, plant and equipment.

Estimation of Proved and Probable Oil Reserves
The Parent Company assesses its estimate of proved and probable reserves on an annual basis. The estimate is based on the technical assumptions and is calculated in accordance with accepted volumetric methods, specifically the probabilistic method of estimation. Probabilistic method uses known geological, engineering and economic data to generate a range of estimates and their associated probabilities.

All proved and probable reserve estimates are subject to revision, either upward or downward, based on new information, such as from development drilling and production activities or from changes in economic factors, including product prices, contract terms or development plans. Estimates of reserves for undeveloped or partially developed fields are subject to greater uncertainty over their future life than estimates of reserves for fields that are substantially developed and depleted. Estimated oil reserves are utilized in the impairment testing and the calculation of depletion expense using the unit of production method of the investments in Gabon, West Africa.

As of December 31, 2019 and 2018, the carrying value of "Wells, Platforms and other Facilities" under "Property, Plant and Equipment" amounted to ₱783.73 million and ₱782.15 million, respectively (see Note 10).

Estimation of Useful Lives of Property, Plant and Equipment
The Group reviews on an annual basis the estimated useful lives of property, plant and equipment based on expected asset utilization as anchored on business plans and strategies that also consider expected future technological developments and market behavior.

It is possible that future results of operations could be materially affected by changes in these estimates brought about by changes in the factors mentioned. A reduction in the estimated useful lives of property, plant and equipment would increase the recorded depletion, depreciation and amortization expense and decrease noncurrent assets.

There is no change in the estimated useful lives of property, plant and equipment as of December 31, 2019 and 2018. As of December 31, 2019 and 2018, the Group's depreciable property, plant and equipment amounted to ₱7.73 billion and ₱7.11 billion, respectively (see Note 10).

Impairment of Nonfinancial Assets
The Group assesses at each reporting date, whether there is an indication that an asset may be impaired. If any indication exists, or when annual impairment testing for an asset is required, the Group estimates the asset's recoverable amount. An asset's recoverable amount is the higher of an asset's or cash-generating unit's (CGU) fair value less cost of disposal and its value in use.

The recoverable amount is the higher of an asset's or cash-generating unit's (CGU) fair value less cost of disposal and its value in use. The fair value less cost of disposal is the amount obtainable from the sale of an asset in an arm's length transaction while value in use is the present value of estimated future cash flows expected to arise from the continuing use of an asset or CGU and from its disposal at the end of its useful life.

In determining the present value of estimated future cash flows expected to be generated from the continued use of an asset or CGU, the Group is required to make estimates and assumptions that can materially affect the consolidated financial statements.

Facts and circumstances that would require an impairment assessment as set forth in PFRS 6, *Exploration for and Evaluation of Mineral Resources,* are as follows:

- the period for which the Group has the right to explore in the specific area has expired or will expire in the near future, and is not expected to be renewed;
- substantive expenditure on further exploration for and evaluation of mineral resources in the specific area is neither budgeted nor planned;
- exploration for and evaluation of mineral resources in the specific area have not led to the discovery of commercially viable quantities of mineral resources and the entity has decided to discontinue such activities in the specific area; and
- sufficient data exist to indicate that, although a development in the specific area is likely to proceed, the carrying amount of the exploration and evaluation asset is unlikely to be recovered in full from successful development or by sale.

The related balances of the Group's nonfinancial assets as of December 31 follow:

	2019	2018
Property, plant and equipment (Note 10)	**₱8,536,605,048**	₱7,937,424,612
Right-of-use assets (Note 13)	**403,394,701**	–
Deferred oil exploration costs (Note 11)	**192,958,190**	230,328,188
Intangible assets (Note 15)	**181,192,511**	147,428,683
Deferred development costs (Note 15)	**6,605,102**	26,012,923
Investment properties (Note 14)	**1,611,533**	1,611,533
	₱9,322,367,085	₱8,342,805,939

There are no indicators of impairment that would trigger impairment review in 2019 and 2018 other than those mentioned below.

a. Gabon, West Africa
   The Group believes that the low crude oil prices in the market, political risks in Gabon, discount rates and changes in other assumptions such as change in production profile which is based on continued production until the term of the existing Production Sharing Contract are indicators that the assets might be impaired and thus, prompted the Group to perform impairment testing of the assets. In 2018, the Gabonese Government allowed the sixth amendment to the Exploration Production Sharing Contract (EPSC) that extends the exploitation period for the production licenses by ten (10) years, or from September 2018 until September 2028, extendible by five (5) years and by a final extension of 5 more years. The extension of the EPSC will allow the consortium to maximize the use of the existing facilities that are already in place to increase or maintain production until the field's extended life.

b. SC 14-C2 - West Linapacan, Northwest Palawan
   Production activities in the West Linapacan Oilfield (WLO) remained on suspension mode for the last twenty (20) years. The investment in WLO included in "Wells, platforms and other facilities" account under "Property and equipment." SC 14-C has not yet expired and was granted with a 15-year extension of the SC as approved by the Department of Energy (DOE) from December 18, 2010 to December 18, 2025.

In assessing whether the asset is impaired or if reversal of prior impairment loss is required, the carrying value of the asset is compared with its recoverable amount. The recoverable amount is the higher of the asset's fair value less costs to sell and value in use. Given the nature of the Group's activities, information on the fair value of an asset is usually difficult to obtain unless negotiations with potential purchasers or similar transactions are taking place. Consequently, unless indicated otherwise, the recoverable amount used in assessing the impairment loss is value in use.

The Group estimates value in use using a discounted cash flow model using a discount rate of 10.00% in 2019 and 10.06% in 2018.

The Group recognized an impairment loss (reversal of impairment loss) for the years ended December 31 (nil in 2019) as follows:

	2018	2017
Wells, platforms and other facilities	(₱75,968,002)	₱97,999,403
Deferred oil exploration costs	21,650,023	–
	(₱54,317,979)	₱97,999,403

As of December 31, 2019 and 2018, the net carrying value of wells, platforms and other facilities related amounted to ₱783.73 million and ₱782.15 million, respectively (see Note 10), and the net carrying value of deferred oil exploration costs amounted to ₱192.96 million and ₱230.33 million as of December 31, 2019 and 2018, respectively (see Note 11).

Estimating the incremental borrowing rate
The Group cannot readily determine the interest rate implicit in the lease, therefore, it uses its incremental borrowing rate (IBR) to measure lease liabilities. The IBR is the rate of interest that the Group would have to pay to borrow over a similar term, and with a similar security, the funds necessary to obtain an asset of a similar value to the right-of-use asset in a similar economic environment. The IBR therefore reflects what the Group 'would have to pay', which requires estimation when no observable rates are available or when they need to be adjusted to reflect the terms and conditions of the lease. The Group estimates the IBR by reference to the PH BVAL rate, adjusted by the credit spread of the Group based on current loan agreements.

The Group's lease liabilities amounted to ₱337.83 million as of December 31, 2019 (see Note 13)

Estimation of Asset Retirement Obligations
The Group has various legal obligation to decommission or dismantle its assets related to the oil production, geothermal energy project and solar power project at the end of each respective service contract. In determining the amount of provisions for restoration costs, assumptions and estimates are required in relation to the expected costs to restore sites and infrastructure when such obligation exists. The Group recognizes the present value of the obligation to dismantle and capitalizes the present value of this cost as part of the balance of the related property, plant and equipment, which are being depreciated and amortized on a straight-line basis over the useful life of the related assets (for the renewable energy) and based on units-of-production method based on estimates of proved reserves (for the oil operations).

Cost estimates expressed at current price levels at the date of the estimate are discounted using a rate ranging from 4.39% to 5.17% in 2019 and 7.06% to 7.75% in 2018 to take into account the timing of payments. Each year, the provision is increased to reflect the accretion of discount and to accrue an estimate for the effects of inflation, with charges being recognized as accretion expense (see Note 18).

Changes in the asset retirement obligation that result from a change in the current best estimate of cash flow required to settle the obligation or a change in the discount rate are added to (or deducted from) the amount recognized as the related asset and the periodic unwinding of the discount on the liability is recognized in profit or loss as it occurs.

While the Group has made its best estimate in establishing the asset retirement obligation, because of potential changes in technology as well as safety and environmental requirements, plus the actual time scale to complete decommissioning activities, the ultimate provision requirements could either increase or decrease significantly from the Group's current estimates. The amounts and timing of recorded expenses for any period would be affected by changes in these factors and circumstances.

Asset retirement obligation as of December 31 follows (see Note 18):

	2019	2018
PetroEnergy - Oil production	**₱55,571,203**	₱42,410,991
MGI - Geothermal energy project	**24,562,064**	16,111,110
PetroSolar - Solar power project	**10,487,754**	4,634,578
	₱90,621,021	₱63,156,679

Recoverability of input VAT
The Group maintains an allowance for input VAT based on an assessment of the recoverability of these assets using the historical success rate of VAT refunded from the Bureau of Internal Revenue (BIR). A review is made by the Group on a continuing basis annually to determine the adequacy of the allowance for losses. Allowance for probable losses as of December 31, 2019 amounted to ₱1.66 million (nil as of December 31, 2018). The carrying value of input VAT amounted to ₱222.34 million and ₱246.40 million as of December 31, 2019 and 2018, respectively (see Note 15).

Recognition of deferred tax assets
The Group reviews the carrying amounts of deferred tax assets at each reporting date and reduces them to the extent that it is no longer probable that sufficient future taxable profit will be available to allow all or part of the deferred tax assets to be utilized.

As of December 31, 2019 and 2018, the Group did not recognize deferred tax assets on certain NOLCO and MCIT as the Group believes that it may not be probable that sufficient taxable income will be available in the near foreseeable future against which the tax benefits can be realized prior to their expiration. As of December 31, 2019 and 2018, gross deferred tax assets recognized amounted to ₱23.39 million and ₱16.97 million, respectively (see Note 20).

6. Cash and Cash Equivalents

	2019	2018
Cash on hand and in banks	**₱625,028,938**	₱653,471,167
Cash equivalents	**441,669,139**	534,639,353
	₱1,066,698,077	₱1,188,110,520

Cash in banks earn interest at the prevailing bank deposit rates. Cash equivalents are made for varying periods of up to three months depending on the immediate cash requirements of the Group and earn interest at the prevailing short-term deposit rates.

Interest income earned on cash and cash equivalents and restricted cash (see Note 9) amounted to ₱43.92 million, ₱34.79 million and ₱8.95 million in 2019, 2018 and 2017, respectively.

7. Receivables

	2019	2018
Accounts receivable from:		
Electricity sales to ACEPH (formerly PHINMA)	**₱104,098,660**	₱146,493,151
Feed-in-Tariff (FiT) revenue from National Transmission Corporation (TransCo)	**94,025,965**	155,292,120
Consortium operator	**73,339,544**	49,892,361
Electricity sales to Wholesale Electricity Spot Market (WESM)	**19,534,580**	362,831
PHESCO, Incorporated (PHESCO)	**12,263,904**	282,344
Affiliate (Note 25)	**2,230,515**	1,260,444
Others	**761,992**	2,697,472
Interest receivables	**1,348,378**	1,854,730
Other receivables	**27,968,537**	–
	335,572,075	358,135,453
Less allowance for impairment losses	**2,682,452**	2,682,452
	₱332,889,623	₱355,453,001

Receivables are generally on 30 days credit term. Interest income earned from the delayed payment of FiT differential amounted to ₱9.07 million and ₱9.82 million in 2018 and 2017, respectively (nil in 2019).

Other receivables pertain to the amount due from Rizal Commercial Banking Corporation (RCBC) for withholding tax on interest expense for the Project Loan Facility Agreement advanced by the Group (see Note 17). This amount was subsequently collected in 2020.

8. Financial Assets at Fair Value Through Profit or Loss

	2019	2018
Marketable equity securities	**₱7,470,096**	₱7,712,706
Investment in golf club shares	**770,000**	770,000
	₱8,240,096	₱8,482,706

Net gain (loss) on fair value changes on financial assets at FVTPL included in the consolidated statements of comprehensive income amounted to (₱0.24 million), (₱0.58 million) and (₱0.92 million) in 2019, 2018 and 2017, respectively. Dividend income received from equity securities amounted to ₱0.06 million, ₱0.08 million and ₱0.08 million in 2019, 2018 and 2017, respectively (see Note 24).

9. **Other Current Assets**

	2019	2018
Restricted cash	**₱595,874,394**	₱626,198,951
Supplies inventory	**83,227,307**	71,338,808
Prepaid expenses	**28,199,797**	44,141,571
Prepaid taxes	**12,863,669**	13,415,089
Crude oil inventory	**11,163,550**	8,791,732
Advances to suppliers	**4,051,107**	3,348,281
Others	**3,689,963**	3,660,010
	₱739,069,787	₱770,894,442

Restricted Cash
Restricted cash includes the amount of fund that the Group is required to maintain in the Debt Service Payment Account (DSPA) and Debt Service Reserve Account (DSRA) pursuant to the Omnibus Loan and Security Agreement (OLSA) of MGI and PetroSolar, respectively (see Note 16). Restricted cash also includes the remaining unused portion of the Stock Rights Offering Proceeds held under an escrow account amounting to ₱152.03 million and ₱303.67 million as of December 31, 2019 and 2018, respectively.

Supplies Inventory
Supplies inventory refers to purchased supplies and parts that are intended to be used for operations and maintenance.

Prepaid Expenses
Prepaid expenses include various prepaid insurances, services and rent. Prepaid expenses also include advance payment for Real Property Taxes (RPT), Stand-by Letter of Credit (SBLC) charges and operations and maintenance professional fees.

The prepaid rent in 2018 includes the current portion of the advance rental payments for the Land Lease Agreement (LLA) with the National Power Corporation (NPC) and the Power Sector Assets and Liabilities Management Corporation (PSALM) over MGPP's steamfield lot in Sto. Tomas, Batangas (see Note 13). The prepaid rent also includes the: a) unamortized prepayment of land lease with Luisita Industrial Park Corporation (LIPCO); and b) the difference between the deposits paid and fair value of the security deposits which is amortized on a straight-line basis over the 25-year lease term.

Upon adoption of PFRS 16, all prepaid rentals as at January 1, 2019 were derecognized (see Note 3).

Prepaid Taxes
Prepaid taxes pertain to creditable withholding taxes and prior year's income tax credit.

Crude Oil Inventory
Crude oil inventory is stated at NRV at the time of production. Change in crude oil inventory amounting to (₱2.37 million) and ₱22.80 million is included in "Cost of Sales" in the profit or loss in 2019 and 2018, respectively.

Advances to Suppliers
Advances to suppliers pertain to down payments to various suppliers for the purchase of materials and services for the current operations.

10. Property, Plant and Equipment

	2019								
	Power plants	**FCRS and production wells - geothermal**	**Wells, platforms and other facilities**	**Land and land improvements**	**Office condominium units and improvements**	**Transportation equipment**	**Office furniture and other equipment**	**Construction in progress**	**Total**
Cost									
Balances at beginning of year	**₱6,429,701,275**	**₱1,549,575,653**	**₱2,108,693,290**	**₱99,800,307**	**₱40,991,861**	**₱47,432,450**	**₱128,876,866**	**₱41,763,095**	**₱10,446,834,797**
Additions	**6,333,780**	**2,327,943**	**33,654,719**	**185,242,549**	**–**	**6,109,396**	**14,260,725**	**701,435,745**	**949,364,857**
Transfers from deferred development costs (Note 15)	**58,119,066**	**–**	**–**	**–**	**–**	**–**	**–**	**432,934**	**58,552,000**
Transfers from deferred oil exploration costs (Note 11)	**–**	**–**	**11,901,978**	**–**	**–**	**–**	**–**	**–**	**11,901,978**
Change in ARO estimate (Note 18)	**5,505,476**	**7,234,343**	**11,869,186**	**–**	**–**	**–**	**–**	**–**	**24,609,005**
Disposal	**–**	**–**	**–**	**–**	**–**	**(2,459,104)**	**(32,000)**	**–**	**(2,491,104)**
Reclassifications	**712,324,416**	**3,600,181**	**–**	**8,303,764**	**–**		**1,387,559**	**(725,615,920)**	**–**
Balances at end of year	**7,211,984,013**	**1,562,738,120**	**2,166,119,173**	**293,346,620**	**40,991,861**	**51,082,742**	**144,493,150**	**18,015,854**	**11,488,771,533**
Accumulated depletion and depreciation									
Balances at beginning of year	**811,905,265**	**192,997,406**	**1,167,890,663**	**20,993,615**	**40,725,745**	**28,934,921**	**87,305,444**	**–**	**2,350,753,059**
Depletion and depreciation	**289,394,730**	**67,869,638**	**55,845,199**	**5,492,151**	**43,455**	**7,960,457**	**16,947,329**	**–**	**443,552,959**
Disposals	**–**	**–**	**–**	**–**	**–**	**(795,000)**	**(1,659)**	**–**	**(796,659)**
Balances at end of year	**1,101,299,995**	**260,867,044**	**1,223,735,862**	**26,485,766**	**40,769,200**	**36,100,378**	**104,251,114**	**–**	**2,793,509,359**
Accumulated impairment losses	**–**	**–**	**158,657,126**	**–**	**–**	**–**	**–**	**–**	**158,657,126**
Net book values	**₱6,110,684,018**	**₱1,301,871,076**	**₱783,726,185**	**₱266,860,854**	**₱222,661**	**₱14,982,364**	**₱40,242,036**	**₱18,015,854**	**₱8,536,605,048**

	2018								
	Power plants	FCRS and production wells - geothermal	Wells, platforms and other facilities	Land and land improvements	Office condominium units and improvements	Transportation equipment	Office furniture and other equipment	Construction in progress	Total
Cost									
Balances at beginning of year	₱5,112,959,433	₱1,167,720,406	₱2,067,973,473	₱93,531,240	₱39,669,370	₱47,376,956	₱108,453,429	₱1,611,581,169	₱10,249,265,476
Translation adjustment*	–	–	65,414,405	–	1,256,491	600,953	477,255	–	67,749,104
Additions	16,523,125	24,916,205	–	5,717,706	66,000	1,282,249	18,760,637	45,067,699	112,333,621
Transfers from deferred development cost (Note 15)	–	–	–	–	–	–	–	46,338,606	46,338,606
Change in ARO estimate (Note 18)	(1,908,214)	(119,045)	(24,514,337)	–	–	–	–	–	(26,541,596)
Disposal	(260,000)	–	(180,251)	–	–	(1,827,708)	(42,455)	–	(2,310,414)
Reclassification/adjustments	1,302,386,931	357,058,087	–	551,361	–	–	1,228,000	(1,661,224,379)	–
Balances at end of year	6,429,701,275	1,549,575,653	2,108,693,290	99,800,307	40,991,861	47,432,450	128,876,866	41,763,095	10,446,834,797
Accumulated depletion and depreciation									
Balances at beginning of year	561,951,303	134,021,719	1,054,780,409	15,438,078	39,460,319	22,924,942	69,086,560	–	1,897,663,330
Translation adjustment*	–	–	32,014,142	–	1,245,849	249,373	392,182	–	33,901,546
Depletion and depreciation	250,213,962	58,975,687	81,096,112	5,555,537	19,577	7,588,314	17,869,157	–	421,318,346
Disposals	(260,000)	–	–	–	–	(1,827,708)	(42,455)	–	(2,130,163)
Balances at end of year	811,905,265	192,997,406	1,167,890,663	20,993,615	40,725,745	28,934,921	87,305,444	–	2,350,753,059
Accumulated impairment losses									
Balances at beginning of year	–	–	228,599,474	–	–	–	–	–	228,599,474
Translation adjustment*	–	–	6,025,654	–	–	–	–	–	6,025,654
Net impairment loss	–	–	(75,968,002)	–	–	–	–	–	(75,968,002)
Balances at end of year	–	–	158,657,126	–	–	–	–	–	158,657,126
Net book values	₱5,617,796,010	₱1,356,578,247	₱782,145,501	₱78,806,692	₱266,116	₱18,497,529	₱41,571,422	₱41,763,095	₱7,937,424,612

**This pertains to foreign currency translation adjustment upon change in functional currency.*

Power plants represent MGI's geothermal power plant and PetroSolar's photovoltaic plant.

The Group's construction in progress account as of December 31, 2019 includes civil structural, piping and mechanical works for M2, interconnection of MGPP to NGCP 69kV distribution line, design and facilities study for MGI Substation related to MGPP-1&2 and remaining civil works for TSPP-2. All works are expected to be completed in 2020.

Change in ARO estimate and transfers from advances to contractors, deferred oil exploration costs and development costs are considered as noncash investing activities.

Depletion and depreciation expense charged to profit or loss follow:

	2019	2018	2017
Cost of electricity sales (Note 21)	**₱377,738,239**	₱331,552,793	₱264,886,565
Depletion	**55,845,199**	81,096,112	100,126,378
General and administrative expenses (Note 23)	**9,969,521**	8,669,441	9,190,128
	₱443,552,959	₱421,318,346	₱374,203,071

Depletion of wells, platforms and other facilities is presented as a separate item under cost of sales in the consolidated statements of comprehensive income.

As of December 31, 2019 and 2018, the participating interest of PERC in various service contracts areas are as follows:

Gabonese Oil Concessions	2.525%
SC 14-C2 – West Linapacan	4.137%

Foreign Operations

Gabon, West Africa
Background
The Group holds approximately 2.53% participating interest in the EPSC covering the Etame block in Gabon, West Africa (the "Etame Marin Permit"). The EPSC is a contract with the Gabonese Government that gives the holder of the said EPSC exclusive rights and obligations to perform exploration, exploitation, and production activities within the Etame Marin Permit area. The other parties and their respective participating interests in the EPSC are as follows: Addax Petroleum Etame, Inc. (33.90%); Sasol Petroleum West Africa Limited (30.00%); VAALCO Gabon (Etame), Inc. (33.58%) (the "Gabon Consortium"), all are leaders in their respective areas of operation. VAALCO is the Consortium's operator, and as such, has the exclusive charge of conducting the exploration and production activities in the Gabon contract area.

The Etame Marin Permit consists of an offshore exploration area of 307,360 hectares that extends from depths of 200 meters in the Atlantic shelf to near-shore Gabon. The Gabon Consortium was able to develop four (4) oil fields, namely, Etame, Avouma, Tchibala, and Ebouri oil fields. Aside from the EPSC, other licenses were required for the Gabon Consortium to conduct exploration, production and exploitation in these areas within the EPSC such as the Etame Exclusive Exploitation Authorization (G5-88), the Avouma Exclusive Exploitation Authorization (G5-95), and the Ebouri Exclusive Exploitation Authorization (G5-98) (collectively, the "Production Licenses"). Meanwhile, exploration activities outside of the Production License areas are authorized through the Etame Exploration License (G4-160).

In September 2018, the Gabonese Government allowed the Sixth Amendment to the EPSC that extends the exploitation period for the Production Licenses by ten (10) years, or from September 2018 until September 2028, extendible by five (5) years, and by a final extension of five (5) more years. The extension further allows the Consortium to continue to develop the four (4) oil fields in the Etame Marin block offshore in the Republic of Gabon and explore the potential for resources in the surrounding area. The Amendment commits the Consortium to undertake new drillings and technical studies to be completed within two (2) years from the effectivity of the Amendment. Given past production from the block, it is anticipated that the committed drilling program for two (2) development wells and two (2) appraisal wells would further enhance the block's long-term commercial value.

As part of the commitment to the Sixth Amendment to extend the economic life of the field, the Consortium completed a three-well drilling program in the Etame and Southeast Etame fields, using the *Topaz Driller* jack-up rig. The first well in the drilling program, Etame-9H, was put on-line in November 27, 2019. Subsequent wells, Etame-11H and Southeast Etame-4H, were put on-line on January 4, 2020 and on March 22, 2020, respectively. Two (2) old wells, Etame-10H and Southeast Etame-2H, were also worked-over.

After the drilling and workover program in February 2020, overall crude production rose from just ~11,000 barrels of oil per day (BOPD) in October 2019 to ~22,000 BOPD—last experienced in mid-2009 after the Ebouri Field was put on-line.

Given the extended EPSC period, the Consortium is currently firming up the most feasible Integrated Field Development Plan (IFDP) to extract the remaining recoverable oil volumes until at least 2028 up to 2038 (final extension). This IFDP may include: 1) production from sour oil reserves, 2) outfield drilling opportunities, and 3) facility maintenance strategies.

Update on Production

Production is routed to the *Petroleo Nautipa*, the spread-moored Floating Production Storage and Offloading (FPSO) vessel from the Etame, Avouma-Southeast Etame-North Tchibala and Ebouri platforms, and from the wells tied to the subsea Etame manifold. The produced oils are processed and exported from the FPSO, which has a storage capacity of one million barrels of oil (MMBO).

Crude production comes from four (4) oil fields (Etame, Avouma, Ebouri and North Tchibala).

In 2019, total crude production reached 4.70 MMBO. The Consortium managed 14 liftings, resulting in a net crude export of 4.63 MMBO, with crude oil market prices ranging from US$59-US$71 per barrel.

In 2018, total crude production reached 5.06 MMBO. The Consortium managed 14 liftings, resulting in a net crude export of 5.34 MMBO, with crude oil market prices ranging from US$55-US$80 per barrel.

In 2017, the crude oil production reached 5.62 MMBO. The Consortium managed 12 liftings, resulting in a net crude export of 5.27 MMBO, with crude oil market prices ranging from US$45- US$64 per barrel.

Since the Gabon oilfield has been put on-line in 2002, a total of 112 MMBO has been extracted to date over the last 17 years.

Philippine Operations

SC. No. 14 - C2 (West Linapacan) - North West Palawan

West Linapacan was discovered in the early 1990s. It produced oil from 1992 to 1996, peaking at 18,000 BOPD, before it was shut-in due to early water incursion. A 1,083 km 3D seismic survey was conducted and processed in 1997 to 1998, however, the farminees opted not to drill a well. The block was in suspension mode until 2006. From 2007 to 2015, two new farminees joined the SC 14-C2 Consortium and committed to conduct Geological and Geophysical (G&G) studies and to drill one (1) well. However, the farminees defaulted and eventually left the Consortium. Philodrill took over as Operator and has been conducting G&G studies to further strengthen the West Linapacan block to be revived for production.

In July 2018, CWT Consultancy Ltd. was engaged for a three-month scoping study to investigate the feasibility of a re-entry of the West Linapacan A-1 (WLA-1) to gather reservoir data that would support a subsequent drill-stem test (DST) and/or an extended well test (EWT). Concurrent with the scoping study on the potential WLA-1 re-entry, technical evaluation work focusing on the adjacent West Linapacan "B" (WLB) structure was undertaken, using the 2014 Pre-SDM reprocessed seismic volume acquired from DownUnder Geosolutions (DUG) in early 2017.

In 2019, Philodrill advanced the G&G works using recent reprocessed 3D seismic data acquired in 2017. These aim to mature the field further to identify drilling prospects.

Further, the SC 14-C2 Consortium is negotiating with a potential farmee for the drilling of these potential drilling targets, in exchange for a majority share and Operatorship of SC 14-C2. This farm-in is subject to the approval of the DOE.

PetroEnergy holds a 4.137% participating interest in SC 14-C2.

Geothermal Energy

Geothermal Renewable Energy Service Contract (GRESC) No. 2010-02-012

Following the DOE's Philippine Energy Contracting Round for Geothermal in 2009, PetroEnergy signed the Service Contract for the Maibarara Geothermal Power Project (MGPP) on February 1, 2010. PetroEnergy then conducted pre-development activities in 2010 to 2011. In order to carry out the development and operations of the MGPP, PetroEnergy (through its subsidiary, PetroGreen) then created Maibarara Geothermal, Inc. (MGI) along with Trans-Asia Oil and Energy Development Corporation ("Trans-Asia", subsequently renamed as PHINMA Energy Corporation or "PHINMA", and now known as AC Energy Philippines, Inc. or "ACEPH") and PNOC Renewable Corporation (PNOC RC), with 65%, 25%, and 10% equity ownerships, respectively.

In June 2019, ACEPH, the energy platform of Ayala Corporation, completed the acquisition of PHINMA, including PHINMA's 25% share in MGI.

20 MW Maibarara-1 Geothermal Power Plant (MGPP-1)

The DOE confirmed the commerciality of the 20-MW MGPP-1 in 2011, allowing MGI to proceed with the MGPP's development stage, involving 1) the drilling of two (2) wells to complete the steam production and reinjection well capacities, and 2) the construction of the steamfield and power plant facilities. The MGPP-1's 115kV Transmission Line system was successfully connected to the existing MERALCO line in September 2013. Upon completion of the reliability and performance testing, the MGPP-1 went on commercial operations on February 8, 2014. All electricity generated are sold to offtaker, PHINMA.

On April 26-29, 2019, the MGPP-1 had a scheduled minor maintenance shutdown. Various maintenance activities for the unit's mechanical and electrical and instrumentation facilities, as well as for the switchyard and transmission lines, were carried-out by MGI technical staff and private contractors.

On the steamfield side, the two (2) production wells dedicated to MGPP-1 operations—Mai-6D and MB-12D—continued to behave consistently with dynamic but sustainable production.

MGPP-1 exported 162.09 GWh and 161.56 GWh of electricity in 2019 and 2018, respectively.

<u>12 MW Maibarara-2 Geothermal Power Plant (MGPP-2)</u>
With the stable performance of the reservoir, MGI decided to pursue an expansion of the MGPP. There was at least 5 MW of excess steam supply from the MGPP-1 wells, and with the ~6 MW capacity of the new well, an expansion of 12 MW was decided and approved in 2015 (MGPP-2).

Major power plant components from Fuji Electric Co. Ltd. ("Fuji", the same supplier as the MGPP-1) were delivered and installed on site from March to April 2017. MGPP-2 was first synchronized to the grid on March 9, 2018, with the full 12 MW attained on March 18, 2018. Reliability tests were then conducted from March 18 to 27, 2018, during which the power plant was on full 12 MW operation.

The Energy Regulatory Commission (ERC) formally notified MGI of the approval of MGPP-2's Certificate of Compliance (COC) application on April 26, 2018. Subsequently, the MGPP-2 was accepted into the Wholesale Electricity Spot Market (WESM) on April 30, 2018 - pegging the MGPP-2's start of Commercial Operations on the same date. This operationally started the application of MGPP-2's Electricity Supply Agreement (ESA) with PHINMA, now ACEPH.

MGPP-2 exported 94.44 GWh and 64.19 GWh of electricity in 2019 and 2018, respectively.

Both the MGPP-1 and the MGPP-2 are registered with the Board of Investments and are enjoying the incentives under the Renewable Energy Act of 2008.

<u>*Solar Energy*</u>
Solar Energy Service Contract (SESC) No. 2015-03-115

The SESC for the TSPP was awarded by the DOE on March 19, 2015. On June 17, 2015, PGEC and affiliate EEI Power Corporation ("EEIPC", 100% subsidiary of EEI Corporation), incorporated PetroSolar to undertake the development of the TSPP.

<u>50 MW_{DC} Tarlac Solar Power Project-1 (TSPP-1)</u>
On June 22, 2015, PetroGreen and solar farm lot owner, Luisita Industrial Park Corporation (LIPCO), executed a Lease Agreement for the 55-hectare solar farm development. This was assigned to PetroSolar on September 15, 2015. As the LIPCO property is within the Central Technopark, which is under the jurisdiction of the Philippine Economic Zone Authority (PEZA), PetroSolar was able to register as an Ecozone Utilities Enterprise on July 28, 2015, entitling it to the incentives available to PEZA locators.

After only four (4) months of ground works, the TSPP-1 was completed by mid-January 2016 and was able to export power to the grid on January 27, 2016. The DOE eventually gave its Certificate of Endorsement (COE) - Feed-in-Tariff (FiT) for TSPP-1, with the official Commercial Operations Date on February 10, 2016. Subsequently, on April 6, 2016, PSC executed its Renewable Energy Payment Agreement (REPA) with the National Transmission Corporation (TransCo), assuring the TSPP-1's revenues from the FiT payment of ₱8.69/kWh from 2016 to 2036.

The total energy exported to the grid was 65.46 GWh and 70.54 GWh in 2019 and 2018, respectively.

20 MW_{DC} Tarlac Solar Power Project (TSPP-2)
On September 17, 2018, the BOI formally awarded to PetroSolar the Certificate of Registration for the proposed 20 MW_{DC} TSPP-2. This approval entitles the proposed expansion facility to enjoy duty-free importation, seven-year Income Tax Holiday (ITH), among others. PetroSolar has also formally filed with the DOE the Declaration of Commerciality for the TSPP-2.

By the end of December 2018, civil works contractor, Media Construction and Development Corporation (MCDC), completed the site clearing, ground levelling, and compaction works for the whole 22-hectare TSPP-2 lot (likewise under a long-term lease agreement with LIPCO). All six (6) quadrants were turned over and accepted by Solenergy Systems Inc., the main EPC contractor.

After the site construction works on the TSPP-2 were completed in March 2019 and the registration with WESM was secured from the Independent Electricity Market Operator of the Philippines Inc. (IEMOP) on April 21, 2019, the TSPP-2 started exporting power to the grid on April 22, 2019 as part of its testing and commissioning activities. The Energy Regulatory Commission (ERC) conducted its technical inspections for the TSPP-2 on May 31, 2019 for its award to TSPP-2 of the Certificate of Compliance (COC).

On February 27, 2020 and March 18, 2020, the DOE formally issued to PSC the Certificate of Confirmation of Commerciality (COCOC) and the Certificate of Endorsement (COE) for TSPP-2, respectively. The COE is a prerequisite to the issuance of the Certificate of Compliance (COC). The COC will determine the official Commercial Operations Date (COD) for TSPP-2.

The TSPP-2, during its testing phase, exported 18,917 MWh to the grid in 2019.

Borrowing Cost
In 2018, the Group capitalized borrowing costs relating to finance charges incurred in the construction of the MGPP-2 amounting to ₱29.04 million. The rates used to determine the amount of borrowing costs eligible for capitalization ranges from 7.48% to 8.71%, which is the EIR of loans.

There were no capitalized borrowing costs in 2019.

Collateral to Secure Borrowings
In 2011, MGI acquired land areas from Science Park of the Philippines, Inc. and Philtown Properties, Inc. amounting to ₱25.57 million and ₱8.15 million, respectively, used as power plant site in the Maibarara Project Area in Sto. Tomas, Batangas.

MGI has mortgaged its property consisting of real assets and chattel, with a total carrying value of ₱4.64 billion as of December 31, 2019, as collateral in favor of RCBC (the Lender), in relation to its two (2) loan facilities (see Note 17). The breakdown of the above value is as follows:

- Real Assets (consisting of land, buildings, land improvements, machinery and equipment) ₱4.53 billion; and
- Chattel (consisting mainly of other machinery and equipment, inventory, furniture and fixtures) ₱110.70 million.

PetroSolar mortgaged all of its property, plant and equipment with carrying value of ₱3.18 billion as collateral to secure its borrowings as of December 31, 2019 (see Note 17).

11. **Deferred Oil Exploration Costs**

The movements in deferred oil exploration costs follow:

	2019	2018
Cost		
Balances at beginning of year	**₱570,262,558**	₱508,662,877
Transfers to intangible assets (Note 15)	**(45,074,178)**	–
Additions	**19,606,158**	47,680,995
Write-off / relinquishment	**(19,491,642)**	–
Transfers to wells and platforms (Note 10)	**(11,901,978)**	–
Translation adjustment*	–	13,918,686
Balances at end of year	**513,400,918**	570,262,558
Accumulated impairment losses		
Balances at beginning of year	**339,934,370**	309,814,552
Write-off / relinquishment	**(19,491,642)**	–
Translation adjustment*	–	8,469,795
Impairment losses (Note 10)	–	21,650,023
Balances at end of year	**320,442,728**	339,934,370
	₱192,958,190	₱230,328,188

**This pertains to foreign currency translation adjustment upon change of functional currency.*

Details of deferred oil exploration costs as of December 31 follow:

	2019	2018
Cost		
Gabonese Oil Concessions (Note 10)	**₱326,299,680**	₱364,822,497
SC No. 6A - Octon-Malajon Block	**156,626,442**	155,748,070
SC. No. 75 - Offshore Northwest Palawan	**28,041,968**	28,041,968
SC. No. 14 - C2 (West Linapacan) - Northwest Palawan (Note 10)	**2,432,828**	2,158,381
SC No. 51 - East Visayas	–	19,491,642
	513,400,918	570,262,558
Accumulated impairment losses		
Gabonese Oil Concessions (Note 10)	**318,284,347**	318,284,347
SC. No. 14 - C2 (West Linapacan) - Northwest Palawan (Note 10)	**2,158,381**	2,158,381
SC No. 51 - East Visayas	–	19,491,642
	320,442,728	339,934,370
	₱192,958,190	₱230,328,188

<u>**Philippine Oil Operations – Development Phase**</u>

Under the SCs entered into with the DOE covering certain petroleum contract areas in various locations in the Philippines, the participating oil companies (collectively known as "Contractors") are obliged to provide, at their sole risk, the services, technology and financing necessary in the performance of their obligations under these contracts. The Contractors are also obliged to spend specified amounts indicated in the contract in direct proportion to their work obligations.

However, if the Contractors fail to comply with their work obligations, they shall pay to the government the amount they should have spent, but did not, in direct proportion to their work obligations. The participating companies have Operating Agreements among themselves which govern their rights and obligations under these contracts.

The full recovery of these deferred costs is dependent upon the discovery of oil in commercial quantities from any of the petroleum concessions and the success of future development thereof.

As of December 31, 2019 and 2018, the participating interests of the Group in various Petroleum SC areas are as follows:

	2019	2018
SC 6A – Octon-Malajon Block	16.667%	16.667%
SC 75 – Offshore Northwest Palawan	15.000%	15.000%
SC 51 – East Visayas	–	20.050%

SC 6A - Octon-Malajon Block
This is one of the first exploration areas in offshore Palawan. It includes about 165,000 hectares of relatively shallow water areas where a string of wells has found non-commercial oil accumulations in varied reservoir horizons. DOE granted in June 2009 the final 15-year extension of the SC-6A service contract.

In 2016, The Philodrill Corporation (Operator of the SC-6A Block), conducted Geological and Geophysical (G&G) evaluation of the northern portion of the contract area through broadband reprocessing of the 3D seismic dataset acquired in 2013, seismic interpretation works on the newly processed data, and quantitative interpretation (QI) works on the Octon datasets. These were carried over to 2017. Contractor DownUnder Geosolutions (DUG) finished the preliminary processing works of the 2013 3D seismic dataset and is currently integrating the new data for the QI works. In 2018, technical evaluation efforts continued in the north block, particularly the Malajon-Salvacion-Saddle Rock prospects, in which Seismic Attributes mapping yielded several turbiditic channel systems within the reservoir intervals.

In 2019, Philodrill completed seismic interpretation and mapping works for the northern portion of the Octon-Malajon block, using recent and old SC 6A seismic data and subsurface data from the adjacent Galoc Field. For 2020, the mapped prospects and new potential leads will be further de-risked and brought to drillable status. The results of these activities will provide preliminary assessment on the viability of pursuing the drilling and possible development of the prospects.

In parallel, Philodrill is also reviewing a third-party technical evaluation on the southern portion of the block for a potential farm-in opportunity. Service Contract 6A is set to run until 2024.

SC 51 - East Visayas
The block covers the East Visayan basin in two parcels aggregating 444,000 hectares.

Activities in SC 51 has been dormant since 2015 after a failed drilling program and farm-in opportunity from Otto Energy. After Otto's exit and failed negotiations between the remaining Consortium members and the DOE, the DOE formally approved the relinquishment of SC 51 on July 1, 2019.

Prior to relinquishment, PetroEnergy owned 20.05% participating interest in SC 51. The other Consortium members were PHINMA Petroleum and Geothermal Inc. (PPGI) and Alcorn Petroleum and Minerals Corporation (APMC) with 33.35% and 46.60% participating interests, respectively.

SC 75 - Offshore Northwest Palawan
The block remains on-hold since 2015 due to the on-going geopolitical conflicts in the West Philippine Sea. The Consortium is ready to resume exploration works, which include acquisition and processing of new 3D seismic data, once the *Force Majeure* status is lifted.

PXP Energy Corporation is the operator of SC 75 with 50.00% participating interest, PNOC-Exploration Corporation with 35.00%, and PetroEnergy with 15.00%.

12. Investment in a Joint Venture

The investment in a joint venture represents PetroGreen's 40% interest in PetroWind, a company incorporated in the Philippines. The primary purpose of PetroWind is to carry on the general business of generating, transmitting and/or distributing power derived from renewable energy sources.

The movements in the carrying value as of December 31 follow:

	2019	2018
Balance at beginning of year	**₱1,526,687,692**	₱1,407,838,534
Share in net income of a joint venture	**97,552,085**	118,849,158
Dividends received	**(60,000,000)**	–
Share in other comprehensive loss	**(507,474)**	–
Balance at end of year	**₱1,563,732,303**	₱1,526,687,692

The carrying value of the investment in PetroWind is equivalent to the Group's 40% share in PetroWind's equity, plus the fair value adjustment of ₱764.49 million recognized when the Group lost control over PetroWind in 2014.

Selected financial information of PetroWind as of December 31 follows:

	2019	2018
Current assets	**₱786,649,690**	₱825,113,183
Noncurrent assets	**3,646,444,029**	3,767,869,288
Current liabilities	**(452,136,793)**	(396,379,248)
Noncurrent liabilities	**(2,047,596,275)**	(2,355,854,098)
Equity	**₱1,933,360,651**	₱1,840,749,125

Summary of statements of comprehensive income of PetroWind for the years ended December 31 follows:

	2019	2018	2017
Revenue (electricity sales and other income)	**₱832,679,152**	₱869,231,086	₱744,680,246
Cost and expenses	**(589,046,283)**	(567,412,396)	(556,126,344)
Income before tax	**243,632,869**	301,818,690	188,553,902
Tax benefit (provision)	**247,342**	(4,695,793)	64,494
Net income	**₱243,880,211**	₱297,122,897	₱188,618,396
Group's share in net income	**₱97,552,085**	₱118,849,159	₱75,447,359
Other comprehensive loss	**(₱1,268,685)**	–	–
Group's share other comprehensive loss	**(₱507,474)**	–	–

13. **Leases**

The Group entered into lease contracts for office spaces and land used as geothermal field and photovoltaic (PV) solar power facility. The office space lease agreements are for a period of 2 years and are renewable by mutual agreement of both parties.

The LLA with NPC and PSALM for the geothermal field in Sto. Tomas, Batangas has a lease term of twenty-five (25) years, extendable for another 25 years upon mutual agreement of both parties (see Notes 3 and 9).

The two lease agreements with Luisita Industrial Park Corporation (LIPCO) for land used for the photovoltaic solar power facility in Tarlac is for a period of 25 years, renewable by mutual agreement of both parties, generally under the same terms and conditions, with escalation clause of 3% every 2 years (see Notes 3 and 9).

The Group's obligations under these leases are secured by the lessor's title to the leased assets. The Group is restricted from assigning and subleasing the leased assets.

The Group applies the 'short-term lease' and 'lease of low-value assets' recognition exemptions for all other leases, including leases of vehicles and parking slots.

The rollforward analysis of right-of-use assets as of December 31, 2019 follows:

	Land	Office Spaces	Total
Cost upon adoption of standard (Note 3)	₱420,180,224	₱6,563,033	₱426,743,257
Depreciation (Notes 21 and 23)	20,053,149	3,295,407	23,348,556
Net Book Value	₱400,127,075	₱3,267,626	₱403,394,701

The depreciation of the right-of-use of the lands in Tarlac and Batangas are presented as part of "Cost of electricity sales" while the depreciation of the right-of-use of office spaces are presented as part of "General and administrative expenses" in the consolidated statement of comprehensive income.

Prior to technical feasibility and commercial viability of TSPP-2, a portion of the depreciation of right-of-use assets and interest expense on lease liabilities amounting to ₱1.99 million and ₱4.29 million respectively, were capitalized as part of deferred development costs (see Note 15).

No lease liability was recognized for leases of land that have been prepaid. The rollforward analysis of lease liabilities as of December 31, 2019 follows:

Beginning balance upon adoption of standard (Note 3)	₱342,107,039
Interest expense	32,060,888
Payments	(36,338,378)
Ending balance	337,829,549
Less current portion	18,974,634
Noncurrent portion	₱318,854,915

The following are the amounts recognized in the 2019 consolidated statement of comprehensive income:

Interest expense on lease liabilities	₱32,060,888
Depreciation expense of right-of-use assets	23,348,556
Rent expense - short-term leases	4,346,515
Rent expense - low-value assets	202,697
	₱59,958,656

Prior to the adoption of PFRS 16, the Group recognized rent expense on its leases. Rent expense in 2018 amounted to ₱47.62 million.

Shown below is the maturity analysis of the undiscounted lease payments as of December 31:

	2019	2018
Within one year	**₱171,797,454**	₱36,462,122
After one year but not more than five years	**182,013,861**	173,451,509
More than five years but less than 10 years	**437,143,615**	618,990,077
	₱790,954,930	₱828,903,708

14. Investment Properties

As of December 31, 2019 and 2018, this account consists of land and parking lot space (located in Tektite) with cost amounting to ₱1.61 million.

The fair value of the investment properties of the Group is between ₱1.40 million to ₱1.70 million as of December 31, 2019 and 2018. The Group determined the fair values of the Group's investment properties on the basis of recent sales of similar properties in the same areas as the investment properties and taking into account the economic conditions prevailing at the time the valuations were made.

As of December 31, 2019 and 2018, the fair value of the investment properties is classified under the Level 2 category.

Except for insignificant amounts of real property taxes on the investment properties, no other expenses were incurred, and no income was earned in relation to the investment properties in 2019, 2018 and 2017.

15. Other Noncurrent Assets

	2019	2018
Input VAT	**₱222,338,316**	₱246,395,069
Intangible assets	**181,192,511**	147,428,683
Restricted cash	**47,360,677**	49,208,662
Advances to contractors	**31,201,988**	147,413,767
Deferred development costs	**6,605,103**	26,012,923
Prepaid rent - noncurrent portion	–	73,683,157
Others	**19,358,112**	20,011,542
	508,056,707	710,153,803
Less allowance for probable losses	**(1,657,261)**	–
	₱506,399,446	₱710,153,803

Input VAT
Input VAT represents VAT passed on from purchases of goods and services that can be claimed against any future liability to the Bureau of Internal Revenue (BIR) for output VAT from sale of goods and services.

Input VAT also includes outstanding input VAT claims that were applied by MGI for refund with the BIR. As of December 31, 2019 and 2018, the outstanding input VAT claims which are still pending with the CTA and SC amounted to ₱126.96 million.

Intangible assets
Intangible assets pertain to land rights, which refers to grant of easement of right of way entered by PetroSolar to construct, operate, maintain, repair, replace and remove poles, wire, cables, apparatus, and equipment and such other apparatus and structures needed for the transmission line. This also includes software licenses of the Group.

	2019			
	Land Rights	**Production License**	**Software and Others**	**Total**
Cost:				
Balances at beginning of year	**₱152,239,710**	**₱–**	**₱31,015,759**	**₱183,255,469**
Additions	**10,000**	**–**	**9,811,503**	**9,821,503**
Reclassifications from deferred oil exploration costs (Note 11)	**–**	**45,074,178**	**–**	**45,074,178**
Balances at end of year	**152,249,710**	**45,074,178**	**40,827,262**	**238,151,150**
Accumulated Amortization:				
Balances at beginning of year	**17,761,299**	**–**	**18,065,487**	**35,826,786**
Amortization	**6,091,155**	**4,622,993**	**10,417,705**	**21,131,853**
Balances at end of year	**23,852,454**	**4,622,993**	**28,483,192**	**56,958,639**
Net Book Values	**₱128,397,256**	**₱40,451,185**	**₱12,344,070**	**₱181,192,511**

	2018		
	Land Rights	Software and Others	Total
Cost:			
Balances at beginning of year	₱152,239,710	₱12,989,312	₱165,229,022
Additions	–	17,171,106	17,171,106
Cumulative translation adjustment*	–	855,341	855,341
Balances at end of year	152,239,710	31,015,759	183,255,469
Accumulated Amortization:			
Balances at beginning of year	11,671,710	9,934,158	21,605,868
Amortization	6,089,589	7,388,851	13,478,440
Cumulative translation adjustment*	–	742,478	742,478
Balances at end of year	17,761,299	18,065,487	35,826,786
Net Book Values	₱134,478,411	₱12,950,272	₱147,428,683

**This pertains to foreign currency translation adjustment upon change in functional currency.*

Amortization expense charged to profit or loss follows:

	2019	2018	2017
Cost of electricity sales (Note 21)	**₱10,726,337**	₱11,414,196	₱6,613,340
General and administrative expenses (Note 23)	**5,782,523**	2,064,244	535,624
Oil production operating expenses (Note 22)	**4,622,993**	–	–
	₱21,131,853	₱13,478,440	₱7,148,964

Restricted cash
The restricted cash pertains to the Parent Company's share in the escrow fund for the abandonment of the Etame Marine Permit amounting to ₱44.16 million (or $870,200) and ₱45.88 million (or $870,200) as of December 31, 2019 and 2018, respectively. In 2018, the Parent Company contributed its share in the abandonment of the Etame Marine Permit to the escrow fund amounting to ₱3.03 million (nil in 2019).

This also includes escrow to secure payment and discharge of the Parent Company's obligations and liabilities under the FPSO contract amounting to ₱3.20 million and ₱3.33 million as of December 31, 2019 and 2018, respectively. The amount for the share in escrow of the Parent Company's obligation for the FPSO was deducted from the Parent Company's share on lifting proceeds during the first lifting made by Etame in November 2002 and will be paid back to the Parent Company at the end of the contract in 2022.

Advances to contractors
Advances to contractors pertain to the downpayments to various contractors for the purchase of materials and equipment.

Deferred development costs
These pertains to costs incurred in the exploration, development, production and expansion of renewable energy projects.

	2019	2018
Balances at beginning of year	**₱26,012,923**	₱11,185,629
Additions	**39,144,180**	61,165,900
Transfers to property, plant and equipment (Note 10)	**(58,552,000)**	(46,338,606)
Balances at end of year	**₱6,605,103**	₱26,012,923

Prepaid rent - noncurrent portion
On April 23, 2012, MGI entered into a LLA with the NPC and PSALM over MGI's steamfield lot in Sto. Tomas, Batangas.

Under the LLA, MGI will lease the steamfield lot for a period of 25 years, extendable for another 25 years upon mutual agreement of the parties. Prepaid rent pertains to the advance rental paid for the lease agreement. The current portion of prepaid rent is shown as part of "Other current assets" in the consolidated statements of financial position in 2018 (see Note 9).

Upon adoption of PFRS 16, prepaid rent as at January 1, 2019 was derecognized (see Notes 3 and 13).

Others
Other noncurrent assets pertain to noncurrent portion of prepaid insurance and security deposits.

16. Accounts Payable and Accrued Expenses

	2019	2018
Accrued expenses	**₱159,432,539**	₱128,798,876
Accounts payable	**128,510,917**	154,243,059
Withholding taxes and other tax payables	**40,038,233**	15,103,375
Dividends payable	**10,657,014**	10,666,514

(Forward)

	2019	2018
Due to NRDC	**₱2,269,737**	₱2,269,737
Provision for probable loss	**1,051,178**	6,182,702
Others	**1,756,456**	962,242
	₱343,716,074	₱318,226,505

Details of accrued expenses follows:

	2019	2018
Utilities	**₱68,310,651**	₱16,121,953
Interest (Note 17)	**54,130,576**	58,556,797
Sick/vacation leaves	**15,807,702**	19,090,081
Professional fees	**8,792,995**	14,508,406
Profit share	**7,087,209**	9,814,449
Due to related party	**145,600**	377,875
Others	**5,157,806**	10,329,315
	₱159,432,539	₱128,798,876

Accounts payable consists of payable to suppliers and contractors that are currently involved in the development, construction and operations of energy projects. The Group's accounts payable and accrued expenses are due within one year.

Dividends payable pertain to unclaimed checks as of December 31, 2019 and 2018.

17. **Loans Payable**

The Group's loans payable as of December 31 follow:

	2019	2018
Principal, balance at beginning of year	**₱5,752,190,910**	₱6,610,454,546
Add availments during the year	**548,500,000**	319,000,000
Less principal payments during the year	**940,520,781**	1,177,263,636
Principal, balance at end of year	**5,360,170,129**	5,752,190,910
Less unamortized deferred financing cost	**(60,331,266)**	(79,276,809)
	5,299,838,863	5,672,914,101
Less current portion - net of unamortized deferred financing cost	**(1,197,555,427)**	(731,283,710)
Noncurrent portion	**₱4,102,283,436**	₱4,941,630,391

PetroEnergy's short-term loans payable
PetroEnergy entered into unsecured loan agreements specifically to finance its Etame Expansion Project and investments in Renewable Energy Projects.

On April 27, 2015, PetroEnergy entered into an Omnibus Credit Line Agreement (OCLA) with the Development Bank of the Philippines (DBP) which provides a credit facility in the principal amount not exceeding ₱420.00 million. On June 29, 2016 the credit facility was increased to ₱500.00 million.

Loans payable as of December 31, 2019 pertains to:

- loan from DBP amounting to ₱78.50 million with interest rate of 6.0% and maturity on May 19, 2020; and

- loan from DBP amounting to ₱190.00 million with interest rate of 6.0% and maturity on April 27, 2020;

Loans payable as of December 31, 2018 pertains to:
- loans from various lenders totaling ₱78.50 million with interest rate of 4.5% and maturity on November 22, 2019; and
- loan from DBP amounting to ₱200.00 million with interest rate of 7.3% and maturity on March 29, 2019;

Interest expense related to these loans amounted to ₱20.36 million, ₱28.13 million and ₱32.68 million in 2019, 2018 and 2017, respectively. Accrued interest payable amounted to ₱2.22 million and ₱3.45 million as of December 31, 2019 and 2018, respectively (see Note 16).

PetroGreen's short-term and long-term loans payable
On November 17, 2015, PetroGreen entered into a 5-year credit line facility with Chinabank amounting to ₱500.00 million, subject to repricing on the third anniversary. On the same date, ₱400.00 million out of the total loan facility were drawn by PetroGreen. The loan has an annual interest rate of 5.24% and has no collateral.

The loan is payable every 17th of May and November beginning on May 2017. The agreement further specifies that 96.50% of the aggregate principal amount shall be paid on the due date of the loan.

On November 29, 2016, PetroGreen has drawn an additional ₱30.00 million out of the total loan facility. The additional loan from Chinabank has an annual interest rate of 5.33%.

On November 17, 2018, the ₱400.00 million and ₱30.00 million long-term loans payable with interest rate of 5.24% and 5.33%, respectively, were repriced to 8.28% and 8.47%.

In 2019, PetroGreen negotiated for the reduction in the interest rates of the aforementioned loans from 8.28% and 8.47% to 7.14% for both loans. The reduced interest rate was approved by the bank and made effective starting September 19, 2019. This amendment did not result to an extinguishment of the loan.

Interest expense related to these loans amounted to ₱34.84 million, ₱26.39 million and ₱26.13 million in 2019, 2018 and 2017, respectively. Accrued interest payable amounted to ₱3.28 million and ₱3.59 million as of December 31, 2019 and 2018, respectively (see Note 16).

Short-term loans from various lenders with interest rate of 3.50% in 2017 amounting to ₱46.00 million were settled on January 30, 2018 (nil in 2019).

MGI's long-term loans payable
Project Loan Facility Agreements with RCBC
On May 19, 2016, MGI, together with PHINMA and PNOC RC executed the Project Loan Facility Agreement with RCBC for a ₱1,400.00 million project loan to finance the design, development and construction of MGPP-2 or M2.

On September 5, 2016, MGI, together with PHINMA and PNOC RC executed another Project Loan Facility Agreement with RCBC for a ₱2,100.00 million project loan to finance the design, development and construction of MGPP-1 or M1. This was done to consolidate the outstanding principal of the term loan under the 2011 OLSA with RCBC and BPI, incidental costs, general corporate expenditures and working capital requirement.

a. MGPP-1 or M1 new Loan
The new MGPP-1 or M1 loan amounting to ₱2,100.00 million has a term of ten (10) years from the drawdown date of October 10, 2016. Interest and principal are payable semi-annually. Interest payment started on October 12, 2016, while the twenty (20) semi-annual principal payments started on April 12, 2017.

Interest rate is fixed for the first five (5) years from drawdown date, based on the sum of the prevailing 5-year fixed benchmark rate on the pricing date and the margin of 1.75% (the "Initial Interest Rate"). On the repricing date, the interest for the remaining five (5)-year term of the loan will be the higher of (i) the sum of then prevailing 5-year fixed benchmark rate plus the margin of 1.75%, or (ii) the initial interest rate.

As of December 31, 2019 and 2018, the outstanding balance of this loan amounted to ₱1,623.00 million and ₱1,813.39 million, respectively. Interest expense recognized from the new M1 Loan amounted to ₱105.45 million, ₱117.94 million and ₱127.74 million in 2019, 2018 and 2017, respectively.

b. MGPP-2 or M2 Expansion Loan
The MGPP-2 or M2 Expansion Loan amounting to ₱1,400.00 million has a term of twelve (12) years including thirty-six (36) months grace period from initial drawdown date of June 2, 2016. Interest and principal are payable semi-annually. Interest payment started on October 12, 2016, while the eighteen (18) semi-annual principal payments started on October 12, 2019.

Interest rate is fixed for the first seven (7) years from the initial drawdown date based on the sum of the prevailing 7-year fixed benchmark rate on the pricing date and the applicable margin of (1) 2.25% per annum prior to commercial operations date, or (ii) 1.75% per annum from and after the Commercial Operations Date (the "Initial Interest Rate"). For subsequent drawdowns, interest rate will be the three (3) –day simple average interpolated rate based on the remaining tenor and computed using the straight-line method. On the repricing date, the interest for the remaining five (5)-year term of the loan will be the higher of (i) the sum of the then prevailing 5-Year fixed benchmark rate plus the applicable margin, or (ii) the weighted average interest rate during the first seven (7) years of the loan.

As of December 31, 2019 and 2018, the outstanding balance of this loan amounted to ₱1,321.54 million and ₱1,271.06 million, respectively. Interest recorded as expense amounted to ₱92.54 million and ₱62.04 million in 2019 and 2018, respectively (nil in 2017). Capitalized interest, on the other hand, amounted to ₱29.04 million and ₱59.71 million in 2018 and 2017, respectively (nil in 2019).

Accrued interest payable of MGI's loans amounted to ₱39.49 million and ₱41.40 million as of December 31, 2019 and 2018, respectively (see Note 15).

The loan covenants covering the outstanding debt of MGI include, among others, the following conditions: maintenance at all times of Debt-to-Equity (DE) Ratio of not greater than 70:30, Default Debt Service Coverage Ratio (DSCR) of at least 1.10x both until full payment of the Loans, and Dividend DSCR of at least 1.20x. MGI is also required to transfer in the DSPA equivalent to one-sixth (1/6) of the amount sufficient to pay for the forthcoming debt service scheduled in April and October of every year until the loan is fully paid off (see Note 9). As of December 31, 2019 and 2018, MGI has been compliant with the above conditions.

PetroSolar's long-term loans payable
On November 12, 2015, the PetroSolar, together with PetroGreen and EEIPC, as third party mortgagors and pledgors, entered into a ₱2,600.00 million OLSA with PNB and DBP specifically to partially finance the design, development, procurement, construction, operation and maintenance of its TSPP.

PetroSolar shall fully pay the loan for the pro-rata account of each lender within twelve (12) years from and after the date of the initial drawdown. Interest and principal are payable semi-annually. Interest payment started on May 27, 2016, while the twenty-two (22) semi-annual principal payments started on November 27, 2016.

The rate of the interest applicable to the facility or the relevant part thereof for each interest period shall be fixed for the first seven periods (7) from the initial drawdown date (the Initial Interest Rate). Prior to the FIT entitlement and collection of FIT revenues of the borrower, the rate shall be the higher of: (i) the aggregate of the seven (7) year PDST-R2 and the initial credit spread, or (ii) the minimum interest rate. Upon FIT entitlement of at least 40MW and collection of FIT revenues by the borrower equivalent to an aggregate of at least four hundred seventy three million pesos (₱473,000,000) within a period not exceeding twelve (12) consecutive months, the rate shall be the higher of (i) the weighted average interest rate in previous drawdowns less the step down credit spread, or (ii) minimum interest rate, and which interest rate shall be applied beginning the following month immediately succeeding the month wherein the aforesaid FIT entitlement and FIT revenue collection thresholds were satisfied. PetroSolar met the criteria for FIT entitlement and aggregate collection of at least ₱473.00 million within 12 months which resulted to a lower interest rate effective July 2017.

The loan covenants covering the outstanding debt of PetroSolar include, among others, maintenance of debt-to-equity ratio of 75:25 and establishment of DSPA required balance (see Note 9). As of December 31, 2019 and 2018, PetroSolar is in compliance with the said loan covenants.

As of December 31, 2019 and 2018, the outstanding balance of this loan amounted to ₱1,670.35 million and ₱1,885.56 million, respectively. Interest expense recognized amounted to ₱127.58 million, ₱157.90 million and ₱174.34 million in 2019, 2018 and 2017, respectively. Accrued interest payable amounted to ₱9.14 million and ₱10.12 million as of December 31, 2019 and 2018, respectively (see Note 15).

PetroSolar mortgaged all of its property and equipment related to TSPP-1 as collateral in connection with the loan (see Note 10).

Deferred financing costs
Deferred financing costs are incidental costs incurred in obtaining the loan which includes documentary stamp tax, transfer tax, chattel mortgage, real estate mortgage, professional fees, arranger's fee and other costs directly attributable in obtaining the loan. The balance of unamortized deferred financing costs is presented as a deduction from the loans payable account and is amortized over the life of the loan using the effective interest rate method.

Details of the Groups' unamortized deferred financing costs follow:

	2019	2018
Balance at beginning of year	**₱79,276,809**	₱100,974,999
Deferred financing costs on loans drawn during the year	**2,152,159**	1,195,645
	81,428,968	102,170,644
Less amortization during the year	**(21,097,702)**	(22,893,835)
Balance at end of year	**₱60,331,266**	₱79,276,809

Amortization of deferred financing costs for the M1 and M2 loans are capitalized until all activities necessary to prepare the power plant for its intended use are substantially complete. Amortization of deferred financing costs for the M1 and M2 loans amounted to ₱13.44 million, ₱13.85 million, ₱13.40 million in 2019, 2018 and 2017, respectively.

18. Asset Retirement Obligation

The Group has recognized its share in the abandonment costs associated with the Etame, Avouma and Ebouri oilfields located in Gabon, West Africa, geothermal field located in Sto. Tomas Batangas, and photovoltaic (PV) solar power facility in Tarlac.
Movements in this account follows:

	2019	2018
Balance at beginning of year	**₱63,156,679**	₱82,010,215
Change in estimates (Note 10)	**24,609,005**	(26,541,596)
Accretion expense	**4,505,825**	4,309,762
Foreign exchange adjustment	**(1,650,488)**	3,378,298
Balance at end of year	**₱90,621,021**	₱63,156,679

Details of the Group's asset retirement obligation as of December 31 follow:

	2019		2018	
	Discount Rate	**Amount**	Discount Rate	Amount
PetroEnergy	**4.39%**	**₱55,571,203**	7.06%	₱42,410,991
MGI	**4.83%**	**24,562,064**	7.33%	16,111,109
PetroSolar	**5.17%**	**10,487,754**	7.75%	4,634,579
		₱90,621,021		₱63,156,679

19. Equity

Under the existing laws of the Republic of the Philippines, at least 60% of the Parent Company's issued capital stock should be owned by citizens of the Philippines for the Parent Company to own and hold any mining, petroleum or renewable energy contract area. As of December 31, 2019, the total issued and subscribed capital stock of the Parent Company is 99.88% Filipino and 0.12% non-Filipino as compared to 99.89% Filipino and 0.11% non-Filipino as of December 31, 2018.

As of December 31, 2019 and 2018, paid-up capital consists of:

Capital stock - ₱1 par value	
Authorized - 700,000,000 shares	
Issued and outstanding	₱568,711,842
Additional paid-in capital	2,156,679,049
	₱2,725,390,891

The Group's track record of capital stock follows:

	Number of shares registered	Issue/offer price	Date of SEC approval	Number of holders as of year-end
Listing by way of introduction -				
August 11, 2004	84,253,606	₱3/share	August 4, 2004	
Add (deduct):				
25% stock dividend	21,063,402	₱1/share	September 6, 2005	
30% stock dividend	31,595,102	₱1/share	September 8, 2006	
1:1 stock rights offering	136,912,110	₱5/share	May 26, 2010	
December 31, 2010	273,824,220			2,149
Deduct: Movement	–			(26)
December 31, 2011	273,824,220			2,123
Deduct: Movement	–			(10)
December 31, 2012	273,824,220			2,113
Deduct: Movement	–			(41)
December 31, 2013	273,824,220			2,072
Deduct: Movement				(29)
December 31, 2014	273,824,220			2,043
Add (Deduct):				
2:1 stock rights offering	136,912,110	₱4.38/share	June 3, 2015	(15)
December 31, 2015	410,736,330			2,028
Deduct: Movement	–			(1)
December 31, 2016	410,736,330			2,027
Deduct: Movement	–			(15)
December 31, 2017	410,736,330			2,012
Add (Deduct):				
1.2:6 stock rights offering	157,975,512	₱4.8/share	January 8, 2018	(8)
December 31,2018	568,711,842			2004
Deduct: Movement				(5)
December 31,2019	568,711,842			1,999

On July 26, 2017, at the BOD meeting, the Parent Company was authorized to raise approximately one billion pesos (₱1,000,000,000) in capital, by offering and issuing to all eligible stockholders as of record date, the rights to subscribe up to all of the existing unissued common shares of the Parent Company (" Stock Rights Offer").

On September 29, 2017, the Parent Company filed its application for the listing and trading of rights shares with the PSE. On December 13, 2017, the PSE approved the application to list the Rights Shares.

The rights offer entitled eligible stockholders as of record date of January 12, 2018 to subscribe to one rights share for every 2.6 shares held at an offer price of ₱4.80 per share.

The rights offer was undertaken on January 22 to 26, 2018. Following the close of the offer period, the Parent Company successfully completed the stock rights offer for 157,975,512 common shares with gross proceeds of ₱758.28 million and was subsequently listed on the PSE on February 2, 2018.

The proceeds from the stock rights offer were used for the development and expansion plans of the Group's renewable energy projects, general corporate requirements, and payments of loans and the related interest.

Appropriated Retained Earnings
On January 15, 2008, the BOD approved the appropriation of ₱20.00 million for the development of the Ebouri oilfield in Gabon, West Africa in addition to the ₱30.00 million originally appropriated amount.

On July 24, 2008, the BOD approved additional appropriation of retained earnings amounting to ₱44.14 million for the development of the Ebouri oil field in Gabon, West Africa.

On February 19, 2013, the BOD approved additional appropriated retained earnings amounting to ₱44.45 million to cover for the Group's share in the cost of the committed wells in the Etame oilfield in Gabon, West Africa.

On July 12, 2018, the BOD approved the reversal of the appropriation amounting to ₱138.59 million to unappropriated retained earnings since the above appropriations have been served.

Dividends
On July 26, 2018, the Parent Company declared cash dividends amounting to ₱28,435,592 or ₱0.05 per share to stockholders of record as of August 24, 2018 and was paid on September 20, 2018 (nil in 2019 and 2017).

Cumulative Translation Adjustment
In 2018, because of the change in business circumstances of the Parent Company, management changed its functional currency from United States Dollar (USD) to PHP effective January 31, 2018. All resulting exchange differences in the remeasurement of USD balances to PHP balances were recognized as 'Cumulative Translation Adjustment'.

Equity Reserve
On June 9, 2015, PetroEnergy sold its 10% interest in PetroGreen to EEIPC, bringing its ownership in PetroGreen from 100% to 90%. The transaction was accounted as an equity transaction since there was no change in control.

The effect of change in the ownership interest in PetroGreen on the equity attributable to owners of PetroEnergy is summarized as follows:

Consideration received from non-controlling interest	₱206,000,000
Carrying amount of non-controlling interest sold, net of related cost	(125,950,762)
Excess of consideration received recognized in equity	₱80,049,238

Capital Management
The primary objective of the Group's capital management is to ensure that it maintains a strong credit rating and healthy capital ratios in order to support its business and maximize shareholders' value.

The Group manages its capital structure and makes adjustments to it, in light of changes in economic conditions. To maintain or adjust the capital structure, the Group may increase its debt from creditors, adjust the dividend payment to shareholders or issue new shares.

As of December 31, 2019 and 2018, the Group monitors capital using a debt-to-equity ratio, which is total liabilities divided by total equity.

The Group's sources of capital as of December 31 are as follows:

	2019	2018
Loans payable	**₱5,299,838,863**	₱5,672,914,102
Capital stock	**568,711,842**	568,711,842
Additional paid-in capital	**2,156,679,049**	2,156,679,049
Retained earnings	**2,017,651,639**	1,725,169,585
Equity reserve	**80,049,238**	80,049,238
	₱10,122,930,631	₱10,203,523,816

The table below demonstrates the debt-to-equity ratio of the Group as of December 31:

	2019	2018
Total liabilities	**₱6,098,412,780**	₱6,092,520,578
Total equity	**7,265,810,016**	6,647,119,075
Debt-to-equity ratio	**0.84:1**	0.92:1

Based on the Group's assessment, the capital management objectives were met in 2019 and 2018.

20. **Income Tax**

The provision for (benefit from) income tax consists of:

	2019	2018	2017
Current	**₱15,054,689**	₱18,067,256	₱12,931,399
Deferred	**(2,874,875)**	95,224	(70,000,886)
	₱12,179,814	₱18,162,480	(₱57,069,487)

The components of the Group's net deferred tax assets (liabilities) are as follows:

	2019	2018
Deferred income tax assets on:		
Asset retirement obligation	**₱19,787,726**	₱14,566,137
Accrued retirement liability	**2,408,273**	1,703,351
Unrealized foreign exchange loss	**1,193,492**	–
Accrued rent payable (Note 3)	–	701,801
	23,389,491	16,971,289
Deferred income tax liabilities on:		
Asset retirement cost	**(7,416,435)**	(1,096,839)
Oil production revenue	**(3,349,064)**	(2,637,520)
Unrealized foreign exchange gain	–	(2,567,135)
Prepaid retirement	–	(176,639)
	(10,765,499)	(6,478,133)
Deferred income tax assets - net	**₱12,623,992**	₱10,493,156

As of December 31, 2019 and 2018, the Group did not recognize deferred tax assets on NOLCO and MCIT as the Group believes that it may not be probable that sufficient taxable income will be available in the near foreseeable future, prior to their expiration, against which the tax benefits can be realized.

Details of the NOLCO and MCIT follow:

Year Incurred	NOLCO	MCIT	Expiry Year
2019	₱80,176,058	₱2,329,516	2022
2018	58,106,412	2,759,239	2021
2017	149,052,255	246,717	2020
	₱287,334,725	₱5,335,472	

Movements in NOLCO follow:

	2019	2018
Beginning balances	**₱381,104,630**	₱400,729,474
Additions	**80,176,058**	58,106,412
Expiration	**(173,945,963)**	(77,731,256)
Ending balances	**₱287,334,725**	₱381,104,630

Movements in MCIT follow:

	2019	2018
Beginning balances	**₱3,232,966**	₱2,298,017
Additions	**2,329,516**	2,759,239
Expiration	**(227,010)**	(1,824,290)
Ending balances	**₱5,335,472**	₱3,232,966

For MGI, as indicated on the Implementing Rules and Regulations of the Renewable Energy (RE) Act of 2008, the NOLCO of the RE Developer during the first three (3) years from the start of commercial operation shall be carried over as a deduction from gross income for the next seven (7) consecutive taxable years immediately following the year of such loss, subject to the following conditions:

a) The NOLCO had not been previously offset as a deduction from gross income; and
b) The loss should be a result from the operations and not from the availment of incentives provided for in the RE Act.

For PetroSolar, on July 28, 2015, the PSC registered with PEZA as an Economic Zone Utilities Enterprise to establish, operate and maintain its 50MW Solar Facility project at the Central Technopark and the sale of electricity in accordance with the representations, commitments and proposals set forth in its application.

PetroSolar shall pay the special tax rate of 5% on its gross income earned from sources within the PEZA economic zone in lieu of paying all national and local income taxes. Gross income earned refers to gross sales derived from any business activity, net of returns, discounts and allowances, less cost of sales, cost of production and allowable expenses as defined by PEZA. Income generated from sources outside of PEZA economic zone shall be subject to Regular Corporate Income Taxes (RCIT).

The reconciliation of the statutory tax rate to the effective income tax rate shown in the consolidated statements of income follows:

	2019	2018	2017
Statutory tax rate	**30.00%**	30.00%	30.00%
Add (deduct) reconciling items:			
Income from entities subjected to lower rate	**(21.50)**	(14.83)	(21.72)
Nondeductible expenses	**1.60**	0.79	8.09
Movement in unrecognized deferred tax assets	**4.91**	11.80	(7.86)
Income subjected to final tax	**(2.42)**	(2.49)	(0.62)
Unrealized gain on FVTPL	**(0.01)**	(0.07)	(0.02)
Nontaxable income	**–**	(18.05)	(6.13)
Others	**(10.35)**	(4.60)	(17.19)
Effective income tax rate	**2.23%**	2.55%	(15.45%)

21. Cost of Electricity Sales

	2019	2018	2017
Depreciation and amortization (Notes 10, 13 and 15)	**₱406,532,430**	₱342,966,989	₱271,499,905
Purchased services and utilities	**119,305,171**	107,426,125	85,761,359
Rental, insurance and taxes	**108,363,449**	119,598,185	123,056,621
Personnel costs	**70,579,509**	70,691,373	58,513,310
Repairs and maintenance	**53,529,903**	26,903,476	22,706,648
Business and related expenses	**17,900,019**	14,199,841	14,267,295
Materials and supplies	**16,417,339**	27,304,016	14,503,610
Government share and royalty fees	**13,066,762**	12,094,267	9,684,876
	₱805,694,582	₱721,184,272	₱599,993,624

Government shares

Under the Service Contract, the RE Developer shall pay the government share equivalent to one and a half percent (1.5%) from the sale of geothermal steam and one percent (1%) from the sale of solar energy produced and such other income incidental to and arising from generation, transmission and sale of electric power generated from geothermal energy within the Contract Area less costs and expenses incurred thereon.

Energy Regulation No. 1-94 (ER 1-94)

Based on ER 1-94, all power producer shall set aside one-centavo per kilowatt-hour (₱0.01/kwh) of the total electricity sales of the energy-generating facility which shall be applied to Generation Facilities and/or energy resource development projects located in all barangays, municipalities, cities, provinces and regions. This is included under “Rental, insurance and taxes.”

22. **Oil Production**

	2019	2018	2017
Production, transportation and other related expenses	**₱162,893,096**	₱194,336,353	₱152,737,613
Storage and loading expenses	**48,659,191**	42,986,631	48,311,530
Amortization (Note 15)	**4,622,993**	–	–
Supplies and facilities	**317,481**	310,395	311,229
Others	**4,766,595**	5,061,752	4,710,883
	₱221,259,356	₱242,695,131	₱206,071,255

23. **General and Administrative Expenses**

	2019	2018	2017
Salaries, wages and benefits	**₱86,593,321**	₱79,440,639	₱61,941,791
Taxes and licenses	**25,544,000**	3,649,424	9,023,592
Depreciation and amortization (Notes 10, 13 and 15)	**19,047,451**	10,733,686	9,725,752
Professional and other fees	**16,377,334**	50,145,356	12,628,618
Entertainment, amusement and recreation	**5,852,679**	5,477,813	3,888,912
Transportation and travel	**5,121,820**	7,186,379	5,337,306
Communication	**4,809,611**	4,527,004	2,430,705
Write-off of input VAT	**4,530,773**	6,370,346	–
Insurance	**3,221,453**	2,311,921	2,620,279
Gasoline, oil and lubricants	**2,632,511**	2,358,781	2,088,710
Training and seminar	**2,509,070**	4,461,364	1,121,427
Donation and contribution	**2,484,110**	1,512,730	1,002,024
Research costs	**2,428,039**	4,286,192	5,564,073
Provision for probable loss	**2,358,439**	6,182,702	–
Stock transfer expense	**2,238,317**	4,413,970	3,272,611
Security and janitorial services	**2,205,419**	1,586,178	1,377,372
Environmental and social expenses	**2,181,745**	2,917,179	4,968,345
Utilities	**1,967,063**	2,107,922	1,723,715
Office supplies	**1,782,023**	1,907,846	1,784,864
Advertisement	**1,733,416**	1,171,144	2,259,474
Repairs and maintenance	**1,519,353**	1,324,698	1,882,762
Condominium dues	**1,327,547**	1,321,855	1,439,570
Business meetings	**1,310,651**	1,133,477	1,506,851
Rent expense	**692,323**	3,952,810	3,401,203
Dues and subscriptions	**516,748**	306,877	347,160
Other services	**139,389**	243,809	92,384
Others	**22,089,011**	6,431,397	5,187,372
	₱223,213,616	₱217,463,499	₱146,616,872

In 2019, "Others" include deficiency business taxes of MGI from 2015 to 2018 amounting to ₱15.42 million, including surcharges and interests. "Others" also include miscellaneous expenses such as development assistance, notarization, bank charges, and reproduction expenses.

24. Miscellaneous Income (Charges)

	2019	2018	2017
Management income and timewriting fees (Note 25)	**₱10,517,125**	₱8,408,310	₱8,044,885
Trustee fees	**(5,157,836)**	(4,041,061)	(3,315,209)
Rental income (Note 25)	**857,143**	857,143	857,143
Professional fees (Note 25)	**550,000**	–	–
Gain on sale of equipment	**345,134**	500,830	373,214
Dividend income (Note 7)	**61,586**	83,050	81,442
Others	**509,063**	546,710	71,048
	₱7,682,215	₱6,354,982	₱6,112,523

Trustee fees pertain to payments of the Group to the facility agent and account trustees for the M1 and M2 loans (see Note 17).

25. Related Party Transactions

Parties are considered to be related if one party has the ability, directly or indirectly, to control the other party or exercise significant influence over the other party in making financial and operating decisions. Parties are considered to be related if one party has the ability, directly or indirectly, to control the other party in making financial and operating decisions or the parties are subject to common control or common significant influence (referred to as 'Affiliates'). Related parties may be individuals or corporate entities.

Significant transactions with related parties are as follows:

	Transactions for the Years Ended December 31		Outstanding Balance Receivables (Payables) (see Notes 7 and 16)		
Related Party/Nature	**2019**	2018	**2019**	2018	**Terms and Conditions**
Investor					
House of Investments, Inc					
Internal audit services	**₱739,200**	₱972,000	**(₱145,600)**	(₱377,875)	Note a
Joint Venture					
PetroWind					
Rental income	**857,143**	857,143	–	–	Note b
Timewriting fee	**8,517,125**	6,408,310	**1,411,611**	1,220,483	Note c
Management income	**2,000,000**	2,000,000	–	–	Note c
Advances	**8,984,672**	4,246,046	**202,904**	39,961	Note d
			1,614,515	1,260,444	
Affiliate					
AC Energy Philippines, Inc. (formerly PHINMA)					
Electricity sales	**1,139,162,750**	1,110,004,166	**104,098,660**	146,493,151	Note e

Related Party/Nature	Transactions for the Years Ended December 31 **2019**	2018	Outstanding Balance Receivables (Payables) (see Notes 7 and 16) **2019**	2018	Terms and Conditions
Affiliate					
EEI Power Corporation					
Other income	**₱550,000**	₱–	**₱616,000**	₱–	Note f
Loans payable	**123,200,000**	–	–	–	Note g
Interest capitalized	**1,694,000**	–	–	–	Note g
Interest expense	**1,148,155**	–	–	–	Note g
			₱106,183,575	₱147,375,720	

a. PetroEnergy has an Internal Audit Engagement arrangement with House of Investments, Inc. (HI). The internal audit services amounted ₱739,200 and ₱672,000 in 2019 and 2018, respectively. In 2018, HI rendered additional internal audit service amounting to ₱300,000 (nil in 2019). These are non-interest bearing and are due and demandable.

b. PetroGreen charges rental fees to PetroWind amounting to ₱71,429 every month. These are non-interest bearing and payable when due and demandable.

c. Timewriting fees are charged by PetroGreen for accounting, legal management and other support services rendered to PetroWind. Management income refers to charges by PetroEnergy to PetroWind. These are non-interest bearing and are due and demandable.

d. Advances represent reimbursements of costs and expenses.

e. Electricity sales to ACEPH (formerly PHINMA) is pursuant to the Electricity Supply Agreement (see Note 33). This is due and payable on the last business day of the month succeeding the billing period and non-interest bearing if paid within the due date.

f. In 2019, PetroGreen charged EEI Power Corporation (EEIPC) amounting to ₱550,000 plus VAT representing charges for the equity valuation study.

g. In 2019, EEIPC granted a loan to PetroSolar amounting to ₱123.20 million with an interest rate of 5.50% per annum. The loan was converted into equity for subscription of unissued authorized capital stock in July 2019 increasing non-controlling interest (see Note 29).

On November 12, 2015, MGI entered into a ₱2.6 billion OLSA with PNB and DBP. EEIPC is a third-party mortgagor and pledgor in the OSLA.

Compensation of Key Management Personnel

The Group has a profit-sharing plan for directors, officers, managers and employees as indicated in its by-laws. The amount, the manner and occasion of distribution is at the discretion of the BOD, provided that profit share shall not exceed 5% of the audited income before income tax and profit share.

The remuneration of the Group's directors and other members of key management are as follows:

	2019	2018	2017
Salaries and wages and other short-term benefits	**₱23,883,304**	₱23,142,849	₱18,880,385
Directors' fees	**5,417,248**	5,804,539	299,998
Retirement expense	**2,033,795**	2,537,817	1,486,580
	₱31,334,347	₱31,485,205	₱20,666,963

26. **Financial Instruments**

The Group's principal financial instruments include cash and cash equivalents, financial assets at FVTPL, receivables, restricted cash, loans payable, accounts payable, accrued expenses and dividends payable. The main purpose of these financial instruments is to fund the Group's working capital requirements.

Categories and Fair Values of Financial Instruments

As of December 31, 2019 and 2018, the carrying amounts of the Group's financial assets and financial liabilities approximate their fair values except for loans payable and lease liabilities. The fair value of the loans payable as of December 31, 2019 and 2018 amounted to ₱5.45 billion and ₱5.94 billion compared to their carrying value of ₱5.36 billion and ₱5.75 billion, respectively. As of December 31, 2019, the fair value of lease liabilities amounted to ₱397.22 million compared to the carrying value of ₱337.83 million (nil in 2018).

The methods and assumptions used by the Group in estimating the fair value of financial instruments are:

Financial instruments	**Considerations**
Cash and cash equivalents, restricted cash, receivables, accounts payable and accrued expenses, and short-term loans payable	Due to the short-term nature of the instruments, carrying amounts approximate fair values as at the reporting date.
Equity securities	Fair values are based on published quoted prices.
Golf club shares	Fair values are based on quoted market prices at reporting date.
Long-term loans payable	Fair value is based on the discounted value of expected future cash flows using the applicable interest rate for similar type of instruments. The fair value is derived using the prevailing PH BVAL rate in 2019 and 2018.
Lease liabilities	Estimated fair value is based on the discounted value of future cash flows using the prevailing PH BVAL rate in 2019.

The fair value is based on the source of valuation as outlined below:

- quoted prices in active markets for identical assets or liabilities (Level 1);
- those involving inputs other than quoted prices included in Level 1 that are observable for the asset or liability, either directly or indirectly (Level 2); and
- those with inputs for the asset or liability that are not based on observable market data (unobservable inputs) (Level 3).

In 2019 and 2018, there were no transfers of financial instruments among all levels.

Financial Risk Management Objectives and Policies

The Group manages and maintains its own portfolio of financial instruments in order to fund its own operations and capital expenditures. Inherent in using these financial instruments are the following risks on liquidity, market and credit.

Financial Risks
The main financial risks arising from the Group's financial instruments are liquidity risk, market risk and credit risk.

Liquidity Risk
Liquidity risk is the risk that the Group is unable to meet its financial obligations when due. The Group monitors its cash flow position and overall liquidity position in assessing its exposure to liquidity risk. The Group maintains a level of cash and cash equivalents deemed sufficient to finance its operations and to mitigate the effects of fluctuation in cash flows. To cover its short-term and long-term funding requirements, the Group intends to use internally generated funds as well as to obtain loan from financial institutions. As of December 31, 2019 and 2018, the Group has existing credit line facilities from which they can draw funds from (see Note 17).

The tables below summarize the maturity profile of the Group's financial assets and financial liabilities as of December 31, 2019 and 2018 based on contractual payments:

	2019			
	On demand	**1 year or less**	**More than 1 year**	**Total**
Financial Assets				
Financial assets at FVTPL	**₱8,240,096**	**₱–**	**₱–**	**₱8,240,096**
Loans and receivables:				
Cash and cash equivalents	**1,066,698,077**	**–**	**–**	**1,066,698,077**
Accounts receivable	**70,683,906**	**232,525,972**	**362,830**	**303,572,708**
Interest receivable	**253,077**	**1,095,301**	**–**	**1,348,378**
Other receivables	**–**	**27,968,537**	**–**	**27,968,537**
Refundable deposits	**–**	**324,721**	**15,980,288**	**16,305,009**
Restricted cash	**152,036,942**	**443,837,452**	**47,360,677**	**643,235,071**
	1,297,912,098	**705,751,983**	**63,703,795**	**2,067,367,876**
Financial Liabilities				
Loans payable**	**–**	**1,521,269,853**	**5,476,849,755**	**6,998,119,608**
Lease liabilities	**–**	**171,797,454**	**619,157,476**	**790,954,930**
Accounts payable and accrued expenses*	**81,931,561**	**214,781,270**	**–**	**296,712,831**
	81,931,561	**1,907,848,577**	**6,096,007,231**	**8,085,787,369**
Net financial assets (liabilities)	**₱1,215,980,537**	**(₱1,202,096,594)**	**(₱6,032,303,436)**	**(₱6,018,419,493)**

**Excluding statutory payables*
***Includes future interest payments*

	2018			
	On demand	1 year or less	More than 1 year	Total
Financial Assets				
Financial assets at FVTPL	₱8,482,706	₱–	₱–	₱8,482,706
Loans and receivables:				
Cash and cash equivalents	1,188,110,520	–	–	1,188,110,520
Accounts receivable	47,343,175	306,255,096	–	353,598,271
Interest receivable	805,082	1,049,648	–	1,854,730
Refundable deposits	–	258,700	14,673,259	14,931,959
Restricted cash	303,666,050	322,532,901	49,208,662	675,407,613
	1,548,407,533	630,096,345	63,881,921	2,242,385,799
Financial Liabilities				
Loans payable**	–	1,140,917,428	6,390,349,088	7,531,266,516
Accounts payable and accrued expenses*	50,737,182	257,435,555	–	308,172,737
	50,737,182	1,398,352,983	6,390,349,088	7,839,439,253
Net financial assets (liabilities)	₱1,497,670,351	(₱768,256,638)	(₱6,326,467,167)	(₱5,597,053,454)

**Excluding statutory payables*
***Includes future interest payments*

b. *Market Risk*
Market risk is the risk of loss on future earnings, on fair values or on future cash flows that may result from changes in market prices. The value of a financial instrument may change as a result of changes in equity prices, foreign currency exchanges rates, interest rates and other market changes.

Foreign Exchange Risk
Foreign currency risk is the risk that the value of the Group's financial instruments denominated other than the Group's functional currency diminishes due to unfavorable changes in foreign exchange rates. The Group's transactional currency exposures arise from cash and cash equivalents, receivables and accounts payable and accrued expenses.

The Group's foreign currency-denominated financial instruments as of December 31, 2019 and 2018 follow:

	2019		2018	
	US Dollar	**Peso Equivalent**	US Dollar	Peso Equivalent
Financial assets				
Cash and cash equivalents	**$1,825,094**	**₱92,611,861**	$4,186,125	₱220,709,260
Receivables	**1,392,423**	**70,657,092**	895,416	47,209,909
Restricted Cash	**870,200**	**47,360,677**	933,326	49,208,680
	4,087,717	**210,629,630**	6,014,867	317,127,849
Financial liabilities				
Accounts payable and accrued expenses	**933,283**	**47,358,522**	$261,627	₱13,794,022
Net exposure	**$3,154,434**	**₱163,271,108**	$5,753,240	₱303,333,827

As of December 31, 2019, 2018, the exchange rates used for conversion are ₱50.744 and ₱52.724 per $1, respectively.

The following table demonstrates the sensitivity to a reasonably possible change in US dollar exchange rates. With all other variables held constant, the effect on the Group's income before income tax is as follows:

	Increase/(decrease) in foreign currency	Effect on income before income tax
2019	**+4%**	**(₱6,131,492)**
	-4%	**6,131,492**
2018	+9%	(₱27,300,044)
	-9%	27,300,044

There is no other impact on the Group's equity other than those already affecting income before income tax.

Interest Rate Risk
The Group's exposure to market risk for changes in interest rates relates primarily to the Group's loans payable. Interest rate of loans payable is fixed for the first five (5) years or first seven (7) years and will be repriced thereafter.

The table demonstrates the sensitivity to a reasonably possible change in interest rates, with all other variables held constant, of the Group's net income. The Group used the forecasted one-year Treasury bill rate in performing the analysis.

Loans payable

2019	
Increase/decrease in interest rate (in basis points)	**Impact on income before tax**
+38% to +60%	**(₱43,402,513)**
-38% to -60%	**43,402,513**

2018	
Increase/decrease in interest rate (in basis points)	Impact on income before tax
+28% to +107%	(₱32,198,922)
-28% to -107%	32,198,922

There is no other impact on the Group's equity other than those already affecting income before income tax.

c. *Credit Risk*

Credit risk is the possibility of loss for the Group if its receivable counterparties fail to discharge their contractual obligations. With respect to credit risk arising from the other financial assets of the Group, which comprise of cash and cash equivalents, receivables, financial assets at FVTPL, and restricted cash, the Group's exposure to credit risk could arise from default of the counterparty.

The Group trades only with recognized, creditworthy third parties. However, the Group's credit risk exposure is concentrated on a few counterparties as inherent in the oil exploration and production and renewable energy businesses. The Group has a well-defined credit policy and established credit procedures. In addition, receivable balances are being monitored on a regular basis to ensure timely execution of necessary intervention efforts.

The table below summarizes the Group's gross maximum credit risk exposure from its financial instruments. These amounts are gross of collateral and credit enhancements, but net of any amounts offset and allowance for impairment losses:

	2019	2018
Cash in banks and cash equivalents	**₱1,046,396,874**	₱1,187,820,520
Receivables	**332,889,623**	355,453,001
Financial assets at FVTPL	**8,240,096**	8,482,706
Refundable deposits	**16,226,097**	14,853,047
Restricted cash	**595,874,394**	626,198,951
	₱1,999,627,084	₱2,192,808,225

An impairment analysis is performed at each reporting date using a provision matrix to measure ECL. The mechanics of the ECL calculations and the key elements are, as follows:

a. *Probability of default (PD)* is an estimate of the likelihood of default over a given time horizon.
b. *Exposure at default (EAD)* is an estimate of the exposure at a future default date taking into account expected changes in the exposure after the reporting date.
c. *Loss given default (LGD)* is an estimate of the loss arising in the case where a default occurs at a given time.

ECLs are recognized in two stages. For credit exposures for which there has not been a significant increase in credit risk since initial recognition, ECLs are provided for credit losses that result from default events that are possible within the next 12-months (a 12-month ECL). For those credit exposures for which there has been a significant increase in credit risk since initial recognition, a loss allowance is required for credit losses expected over the remaining life of the exposure, irrespective of the timing of the default (a lifetime ECL). In its ECL models, the Group relies on a broad range of forward-looking information as economic inputs.

The inputs and models used for calculating ECLs may not always capture all characteristics of the market at the date of the financial statements. To reflect this, qualitative adjustments or overlays are occasionally made as temporary adjustments when such differences are significantly material.

The table below shows the aging by class of asset for the Group's financial assets as of December 31, 2019 and 2018:

	2019			
	Current	**More than 90 days**	**Credit impaired**	**Total**
Cash and cash equivalents*	**₱1,046,396,874**	**₱–**	**₱–**	**₱1,046,396,874**
Accounts receivable	**303,572,708**	**–**	**2,682,452**	**306,255,160**
Interest receivable	**1,348,378**	**–**	**–**	**1,348,378**
Other receivables	**27,968,537**	**–**	**–**	**27,968,537**
Refundable deposits	**16,305,009**	**–**	**–**	**16,305,009**
Restricted cash	**595,874,394**	**–**	**–**	**595,874,394**
	₱1,991,465,900	**₱–**	**₱2,682,452**	**₱1,994,148,352**

**excluding cash on hand*

	2018			
	Current	More than 90 days	Credit impaired	Total
Cash and cash equivalents*	₱1,187,820,520	₱–	₱–	₱1,187,820,520
Accounts receivable	353,598,271	–	2,682,452	356,280,723
Interest receivable	1,854,730	–	–	1,854,730
Refundable deposits	14,931,959	–	–	14,931,959
Restricted cash	626,198,951	–	–	626,198,951
	₱2,184,404,431	₱–	₱2,682,452	₱2,187,086,883

**excluding cash on hand*

Financial assets are classified as high grade if the counterparties are not expected to default in settling their obligations. Thus, credit risk exposure is minimal. Financial assets are classified as a standard grade if the counterparties settle their obligation with the Group with tolerable delays. Low grade accounts are accounts, which have probability of impairment based on historical trend. These accounts show propensity of default in payment despite regular follow-up actions and extended payment terms. The Group's cash in banks, cash equivalents, accounts receivable, interest receivable and restricted cash have high grade credit quality.

27. Segment Information

For management purposes, the Group is organized into business units based on their products and has four reportable segments as follows:

- The oil production segment is engaged in the oil and mineral exploration, development and production.
- The geothermal energy segment develops and operates geothermal steamfields and power plants.
- The solar energy segment carries out solar energy operations of the Group.
- Other activities pertain to research and investment activities.

No operating segments have been aggregated to form the above reportable operating segments.

Management monitors the operating results of its business units separately for the purpose of making decisions about resource allocation and performance assessment. Segment performance is evaluated based on operating profit or loss and is measured consistently with operating profit or loss in the consolidated financial statements.

	2019					
	Oil Production	**Geothermal Energy**	**Solar Energy**	**Other Activities**	**Elimination**	**Consolidated**
Segment revenue	**₱351,057,274**	**₱1,139,162,750**	**₱631,944,707**	**₱–**	**₱–**	**₱2,122,164,731**
Net income (loss)	**37,056,507**	**321,474,746**	**209,475,962**	**203,929,129**	**(238,003,688)**	**533,932,656**
Other comprehensive loss	**822,545**	**(2,464,127)**	**(531,118)**	**(3,274,267)**	**–**	**(5,446,967)**
Other information:						
Segment assets except deferred tax assets	**₱3,599,142,103**	**₱5,937,038,323**	**₱4,225,274,049**	**₱2,665,532,940**	**(₱3,075,388,611)**	**₱13,351,598,804**
Deferred tax assets - net	**₱9,601,071**	**₱2,834,134**	**₱188,787**	**₱–**	**₱–**	**₱12,623,992**
Segment liabilities except deferred tax liabilities	**₱410,483,292**	**₱3,201,001,838**	**₱2,054,341,913**	**₱433,089,051**	**(₱503,314)**	**₱6,098,412,780**
Deferred tax liabilities - net	**₱–**	**₱–**	**₱–**	**₱–**	**₱–**	**₱–**
Cash flows from (used in):						
Operating activities	**₱38,591,853**	**₱738,157,482**	**₱552,836,198**	**(₱22,541,695)**	**₱1,283,972**	**₱1,308,327,810**
Investing activities	**42,387,137**	**(308,157,013)**	**(604,558,161)**	**(24,382,378)**	**173,593,668**	**(721,116,747)**
Financing activities	**(31,601,092)**	**(441,536,798)**	**(121,287,399)**	**65,564,064**	**(174,877,640)**	**(703,738,865)**
Provision for (benefit from) income tax	**(₱839,974)**	**(₱61,826)**	**₱12,523,711**	**₱557,903**	**₱–**	**₱12,179,814**
Capital expenditures	**₱36,519,811**	**₱264,104,747**	**₱647,523,109**	**₱2,343,099**	**(₱1,125,911)**	**₱949,364,855**
Deferred oil exploration costs	**₱192,958,190**	**₱–**	**₱–**	**₱–**	**₱–**	**₱192,958,190**
Depletion, depreciation and amortization	**₱68,072,511**	**₱256,012,915**	**₱157,983,213**	**₱4,618,436**	**(₱639,002)**	**₱486,048,073**

	2018					
	Oil Production	Geothermal Energy	Solar Energy	Other Activities	Elimination	Consolidated
Segment revenue	₱436,971,279	₱1,110,004,166	₱615,152,770	₱–	₱–	₱2,162,128,215
Net income (loss)	26,219,307	377,499,019	221,904,465	163,390,496	(94,100,000)	694,913,287
Other comprehensive loss	3,106,072	345,533	–	–	–	3,451,605
Other information:						
Segment assets except deferred tax assets	₱3,527,423,273	₱5,855,498,457	₱3,649,347,629	₱2,472,755,316	(₱2,775,878,178)	₱12,729,146,497
Deferred tax assets - net	₱7,342,003	₱2,344,578	₱806,575	₱–	₱–	₱10,493,156
Segment liabilities except deferred tax liabilities	₱374,384,446	₱3,337,983,034	₱2,171,664,798	₱631,592,683	(₱423,104,383)	₱6,092,520,578
Deferred tax liabilities - net	₱–	₱–	₱–	₱–	₱–	₱–
Cash flows from (used in):						
Operating activities	₱92,490,837	₱559,439,468	₱646,206,888	(₱22,399,774)	₱10,749,646	₱1,286,487,065
Investing activities	(539,841,895)	(139,072,317)	(195,618,902)	(166,340,490)	310,342,477	(730,531,127)
Financing activities	209,163,053	(328,649,582)	(89,101,150)	148,011,052	(321,092,123)	(381,668,750)

	2018					
	Oil Production	Geothermal Energy	Solar Energy	Other Activities	Elimination	Consolidated
Provision for (benefit from) income tax	₱3,891,103	(₱902,758)	₱14,816,069	₱358,066	₱–	₱18,162,480
Capital expenditures	₱2,129,418	₱70,126,594	₱38,839,853	₱1,237,756	₱–	₱112,332,621
Deferred oil exploration costs	₱230,328,188	₱–	₱–	₱–	₱–	₱230,328,188
Depletion, depreciation and amortization	₱86,711,385	₱214,950,154	₱131,321,428	₱1,813,819	₱–	₱434,796,786

	2017					
	Oil Production	Geothermal Energy	Solar Energy	Other Activities	Elimination	Consolidated
Segment revenue	₱328,188,038	₱832,083,551	₱622,076,575	₱–	₱–	₱1,782,348,164
Net income (loss)	(175,576,591)	288,110,718	213,072,903	90,902,831	10,023,632	426,533,493
Other comprehensive income	(4,392,045)	(7,772,044)	–	–	–	(12,164,089)
Other information:						
Segment assets except deferred tax assets	₱3,187,608,992	₱5,589,599,257	₱3,347,396,536	₱2,207,118,709	(₱2,386,138,026)	₱11,945,585,468
Deferred tax assets - net	₱10,322,477	₱1,214,896	₱579,944	₱–	₱–	₱12,117,317
Segment liabilities except deferred tax liabilities	₱867,106,229	₱3,443,798,702	₱2,156,503,065	₱476,186,134	(₱36,146,751)	₱6,907,447,379
Deferred tax liabilities - net	₱–	₱–	₱–	₱–	₱–	₱–
Cash flows from (used in):						
Operating activities	₱99,115,998	₱519,479,319	₱424,807,261	₱6,950,434	₱4,578,790	₱1,054,931,802
Investing activities	(222,347,898)	(1,092,824,548)	(14,025,176)	(152,816,153)	329,008,894	(1,153,004,881)
Financing activities	288,359,017	671,195,784	(395,183,852)	224,852,203	(330,576,609)	458,646,543
Provision for (benefit from) income tax	₱6,920,808	₱162,644	₱12,051,635	₱246,717	(₱76,451,291)	(₱57,069,487)
Capital expenditures	₱5,904,622	₱1,166,134,543	₱16,005,123	₱4,219,587	(₱953,164)	₱1,191,310,711
Deferred oil exploration costs	₱198,848,325	₱–	₱–	₱–	₱–	₱198,848,325
Depletion, depreciation and amortization	₱105,026,129	₱147,049,835	₱128,192,698	₱1,098,228	₱4,574	₱381,371,464

InterGroup investments, revenues and expenses are eliminated during consolidation.

28. Basic/Diluted Earnings Per Share

The computation of the Group’s earnings per share follows:

	2019	2018	2017
Net income attributable to equity holders of the Parent Company	**₱292,835,761**	₱421,257,530	₱191,184,064
Weighted average number of shares	**568,711,842**	568,711,842	410,736,330
Basic/diluted earnings per share	**₱0.5149**	₱0.7407	₱0.4655

Earnings per share are calculated using the net income attributable to equity holders of the Parent Company divided by the weighted average number of shares. The increase in weighted average number of shares is relative to the 1:2.6 Stock Rights Offering in January 2018.

PERC does not have potentially dilutive common stock.

29. Non-controlling Interests

As of December 31, 2019 and 2018, non-controlling interests (NCI) pertain to the 10% shareholdings of EEIPC in PetroGreen, 35% shareholdings of ACEPH (formerly PHINMA) and PNOC-RC in MGI and 44% shareholdings of EEIPC in PetroSolar.

As of December 31, 2019 and 2018, the accumulated balances of and net income attributable to non-controlling interests are as follows:

	2019	2018
Accumulated balances of non-controlling interests:		
MGI	**₱958,604,717**	₱881,951,001
PetroSolar	**955,293,206**	748,597,793
PetroGreen	**424,441,329**	377,748,078
	₱2,338,339,252	₱2,008,296,872

	2019	2018
Net income attributable to non-controlling interests:		
MGI	**₱112,516,161**	₱132,124,656
PetroSolar	**92,169,424**	97,637,964
PetroGreen	**36,411,310**	43,893,137
	₱241,096,895	₱273,655,757

The summarized financial information of these subsidiaries is provided below in PHP which is the subsidiaries' functional currency. This information is based on amounts before intercompany eliminations.

MGI

The 2019 and 2018 financial information for MGI follow:

	2019	2018
Statements of Financial Position		
Current assets	**₱1,103,583,706**	₱997,777,441
Noncurrent assets	**4,836,288,751**	4,860,065,594
Current liabilities	**510,905,565**	450,924,810
Noncurrent liabilities	**3,201,001,838**	2,887,058,225
Equity	**2,738,870,619**	2,519,860,000
Statements of Comprehensive Income		
Revenue	**1,139,162,750**	1,110,004,166
Net income	**321,474,746**	377,499,018
Total comprehensive income	**319,010,619**	377,844,550
Statements of Cash Flows		
Net cash from (used in):		
Operating activities	**738,157,482**	563,480,529
Investing activities	**(308,157,013)**	(139,072,317)
Financing activities	**(441,536,798)**	(332,690,643)
Effect of foreign exchange rate	**(12,186)**	(1,814)
Net increase (decrease) in cash and cash equivalents	**(11,548,515)**	91,715,755

PetroSolar

The 2019 and 2018 financial information for PetroSolar follows:

	2019	2018
Statements of Financial Position		
Current assets	**₱505,633,639**	₱729,426,562
Noncurrent assets	**3,719,829,197**	2,920,727,642
Current liabilities	**275,302,122**	262,860,403
Noncurrent liabilities	**1,779,039,791**	1,685,935,179
Equity	**2,171,120,923**	1,701,358,622
Statements of Comprehensive Income		
Revenue	**631,944,707**	615,152,769
Net income	**209,475,962**	221,904,465
Total comprehensive income	**208,944,844**	221,904,465
Statements of Cash Flows		
Net cash from (used in):		
Operating activities	**552,836,198**	646,206,888
Investing activities	**(604,558,161)**	(195,618,902)
Financing activities	**(121,287,399)**	(89,101,150)
Effect of foreign exchange rate	**(2,588,425)**	(2,159,002)
Net increase (decrease) in cash and cash equivalents	**(175,597,787)**	359,327,834

PetroGreen

The 2019 and 2018 financial information for PetroGreen follows:

	2019	2018
Statements of Financial Position		
Current assets	**₱107,470,601**	₱86,066,761
Noncurrent assets	**2,460,510,254**	2,267,839,396
Current liabilities	**427,456,320**	13,310,645
Noncurrent liabilities	**5,632,731**	417,699,750
Equity	**2,134,891,804**	1,922,895,762
Statements of Comprehensive Income		
Revenue	**196,454,123**	112,730,103
Net income	**106,377,044**	44,541,337
Total comprehensive income	**103,610,251**	44,541,337
Statements of Cash Flows		
Net cash from (used in):		
Operating activities	**(22,541,695)**	(22,399,774)
Investing activities	**(24,382,378)**	(166,340,490)
Financing activities	**65,564,064**	148,011,045
Effect of foreign exchange rate	**43,789**	65,543
Net increase (decrease) in cash and cash equivalents	**18,683,780**	(40,663,676)

Dividends paid to non-controlling interests amounted to ₱76.00 million and ₱65.90 million in 2019 and 2018, respectively.

Increase in non-controlling interests from stock issuances

December 31, 2019:

- On March 29, 2019, the SEC approved PetroGreen's increase in authorized capital stock. PetroGreen applied the ₱254.46 million deposits for future stock subscription as payment of stock.
- PetroGreen also received additional subscriptions amounting to ₱156.80 million at par which increased the non-controlling interest by ₱15.68 million.
- On April 15, 2019, the SEC approved PetroSolar's increase in authorized capital stock. PetroSolar applied the ₱454.50 million deposits for future stock subscription as payment of stock.
- PetroSolar also received subscriptions amounting to ₱280.00 million at par which increased the non-controlling interest by ₱123.20 million.

December 31, 2018:

- MGI issued 450,000 shares amounting to ₱45.00 million which increased the non-controlling interest by ₱12.50 million.

December 31, 2017:

- In 2015, PetroGreen received a total of ₱255.83 million from its equity cash call to stockholders for its capital and operational requirements. PetroGreen received additional deposits amounting to ₱195.65 million at par in 2017. On August 18, 2017, the SEC approved PetroGreen's increase in authorized capital stock. PetroGreen applied the deposit for future stock subscription as payment of stock which increased the non-controlling interest by ₱45.15 million.
- PetroGreen also issued 1,300,000 shares amounting to ₱13.00 million which increased the non-controlling interest by ₱1.30 million in 2017.
- On September 19, 2017, MGI filed for an increase in authorized capital stock with the SEC. The deposit for future stock subscription amounting to ₱180.00 million was reclassified as equity. Non-controlling interest pertaining to the deposit for future stock subscription amounted to ₱63.00 million.
- MGI also received additional deposits in 2017 amounting to ₱326.00 million at par, of which, ₱117.35 million was received from non-controlling interests.

The increase in non-controlling interest from stock issuances did not result in dilution of the Parent Company's effective interest in the subsidiaries.

Increase in non-controlling interests from deposits for future stock subscriptions

Deposits for future stock subscriptions pertain to total consideration received from the non-controlling interests in excess of the authorized capital of the entities within the Group, with the purpose of applying the same as payment for future issuance of shares.

In 2018, the Group filed its application for the increase in authorized capital stock with the SEC.

Following are the details of the Group's deposits for future stock subscriptions as of December 31 2018 (nil in 2019):

	No. of shares	Subscription amount
PetroGreen		
EEIPC	22,286,921	₱22,286,921
PetroSolar		
EEIPC	1,751,115	175,111,526
	24,038,036	₱197,398,447

The SEC approved the application made by both PetroGreen and PetroSolar on March 29, 2019 and April 15, 2019, respectively.

PetroGreen
On September 12, 2018, PetroGreen's BOD and stockholders approved the proposed increase in authorized capital stock from ₱2.00 billion divided into 2 billion shares with a par value of ₱1.00 per share to ₱2.50 billion divided into 2.5 billion shares with the same par value per share. In 2018, PetroGreen received deposits for future stock subscriptions amounting to ₱222.87 million at par, ₱22.29 million of the total consideration was received from the non-controlling interests.

In 2019, PetroGreen received an additional ₱31.59 million deposits for future stock subscription which increased the non-controlling interest by ₱3.16 million.

The total deposits for future stock subscription amounting to ₱254.46 million was reclassified as equity in 2019 upon approval by the SEC of the increase in authorized capital stock.

PetroSolar
On September 12, 2018, PetroSolar's BOD and stockholders approved the proposed increase in authorized capital stock from ₱1.00 billion divided into 1 million shares with a par value of ₱100.00 per share to ₱1.8 billion divided into 1.8 million shares with the same par value per share. In 2018, PetroSolar received deposits for future stock subscriptions amounting to ₱397.98 million at par, ₱175.11 million of the total consideration was received from the non-controlling interests.

In 2019, PetroSolar received an additional ₱56.52 million deposits for future stock subscription which increased the non-controlling interest by ₱24.87 million.

The total deposits for future stock subscription amounting to ₱454.50 million was reclassified as equity in 2019 upon approval by the SEC of the increase in authorized capital stock.

MGI
On January 31, 2018, SEC approved the increase in authorized capital stock from ₱1,125.00 million divided into 11,250,000 shares with par value of ₱100 each to ₱1,700.00 million divided into 17,000,000 shares with par value of ₱100 each. The total deposits for future stock subscription amounting to ₱506.00 million was reclassified as equity in 2017.

30. Consolidated Statements of Cash Flows

Changes in the Group's liabilities arising from financing activities follow:

2019

		Non-cash Changes						
	2018	**Adoption of PFRS 16** (Note 3)	**Deferred financing costs**	**Interest accretion**	**Interest expense**	**Capitalized interest**	**Cash flows**	**2019**
Loans payable	**₱5,672,914,101**	–	**₱2,152,159**	**₱18,945,543**	**₱–**	**₱–**	**(₱394,172,940)**	**₱5,299,838,863**
Accrued interest payable	**37,942,120**	–	–	–	**359,676,638**	–	**(362,976,945)**	**34,641,813**
Lease liabilities	–	**342,107,039**	–	–	**27,767,974**	**4,292,914**	***(36,338,378)**	**337,829,549**
Dividends payable	**10,666,514**	–	–	–	–	–	**(9,500)**	**10,657,014**
Due to a related party	–	–	–	–	**1,148,155**	–	**(1,148,155)**	–
	₱5,721,522,735	**₱342,107,039**	**₱2,152,159**	**₱18,945,543**	**₱388,592,767**	**₱4,292,914**	**(₱794,645,918)**	**₱5,682,967,239**

**Includes interest paid amounting to ₱18,380,351*

2018

		Non-cash Changes					
	2017	Declaration of cash dividend	Deferred financing costs	Interest accretion	Interest expense	Cash flows	2018
Loans payable	₱6,509,479,547	₱–	₱1,195,645	₱21,698,189	₱–	(₱859,459,280)	₱5,672,914,101
Accrued interest payable	46,443,581	–	–	–	216,394,326	(224,895,787)	37,942,120
Dividends payable	10,393,359	78,708,747	–	–	–	(78,435,592)	10,666,514
Due to a related party	39,422,055	–	–	–	1,337,333	(40,759,388)	–
	₱6,605,738,542	₱78,708,747	₱1,195,645	₱21,698,189	₱217,731,659	(1,203,550,047)	₱5,721,522,735

2017

		Non-cash Changes					
	2016	Issuance of stocks	Deferred financing costs	Interest accretion	Interest expense	Cash flows	2017
Loans payable	₱5,741,537,842	₱–	₱42,332,234	(₱17,394,659)	₱–	₱743,004,130	₱6,509,479,547
Deposit for future stock subscription	318,831,475	(436,181,475)	–	–	–	117,350,000	–
Accrued interest payable	38,310,739	–	–	–	8,035,781,695	(8,027,648,853)	46,443,581
Dividends payable	10,399,001	–	–	–	–	(5,642)	10,393,359
Due to a related party	–	–	–	–	–	39,422,055	39,422,055
	₱6,109,079,057	(₱436,181,475)	₱42,332,234	(₱17,394,659)	₱8,035,781,695	(7,127,878,310)	₱6,605,738,542

31. Renewable Energy Act of 2008

On January 30, 2009, Republic Act No. 9513, *An Act Promoting the Development, Utilization and Commercialization of Renewable Energy Resources and for Other Purposes*, otherwise known as the "Renewable Energy Act of 2008" (the "Act"), became effective. The Act aims to (a) accelerate the exploration and development of renewable energy resources such as, but not limited to, biomass, solar, wind, hydro, geothermal and ocean energy sources, including hybrid systems, to achieve energy self-reliance, through the adoption of sustainable energy development strategies to reduce the country's dependence on fossil fuels and thereby minimize the country's exposure to price fluctuations in the international markets, the effects of which spiral down to almost all sectors of the economy; (b) increase the utilization of renewable energy by institutionalizing the development of national and local capabilities in the use of renewable energy systems, and promoting its efficient and cost-effective commercial application by providing fiscal and non-fiscal incentives; (c) encourage the development and utilization of renewable energy resources as tools to effectively prevent or reduce harmful emissions and thereby balance the goals of economic growth and development with the protection of health and environment; and (d) establish the necessary infrastructure and mechanism to carry out mandates specified in the Act and other laws.

As provided for in the Act, Renewable Energy (RE) developers of RE facilities, including hybrid systems, in proportion to and to the extent of the RE component, for both power and non-power applications, as duly certified by the DOE, in consultation with the Board of Investments (BOI), shall be entitled to the following incentives, among others:

i. Income Tax Holiday (ITH) - For the first seven (7) years of its commercial operations, the duly registered RE developer shall be exempt from income taxes levied by the National Government;
ii. Duty-free Importation of RE Machinery, Equipment and Materials - Within the first ten (10) years upon issuance of a certification of an RE developer, the importation of machinery and equipment, and materials and parts thereof, including control and communication equipment, shall not be subject to tariff duties;
iii. Special Realty Tax Rates on Equipment and Machinery - Any law to the contrary notwithstanding, realty and other taxes on civil works, equipment, machinery, and other improvements of a registered RE developer actually and exclusively used for RE facilities shall not exceed one and a half percent (1.5%) of their original cost less accumulated normal depreciation or net book value;
iv. NOLCO - the NOLCO of the RE developer during the first three (3) years from the start of commercial operation which had not been previously offset as deduction from gross income shall be carried over as deduction from gross income for the next seven (7) consecutive taxable years immediately following the year of such loss;
v. Corporate Tax Rate - After seven (7) years of ITH, all RE developers shall pay a corporate tax of ten percent (10%) on its net taxable income as defined in the National Internal Revenue Code of 1997, as amended by Republic Act No. 9337;
vi. Accelerated Depreciation - If, and only if, an RE project fails to receive an ITH before full operation, it may apply for accelerated depreciation in its tax books and be taxed based on such;
vii. Zero Percent VAT Rate - The sale of fuel or power generated from renewable sources of energy, the purchase of local goods, properties and services needed for the development, construction and installation of the plant facilities, as well as the whole process of exploration and development of RE sources up to its conversion into power shall be subject to zero percent (0%) VAT;
viii. Cash Incentive of RE Developers for Missionary Electrification - An RE developer, established after the effectivity of the Act, shall be entitled to a cash generation-based incentive per kilowatt-hour rate generated, equivalent to fifty percent (50%) of the universal charge for power needed to service missionary areas where it operates the same;
ix. Tax Exemption of Carbon Credits - All proceeds from the sale of carbon emission credits shall be exempt from any and all taxes; and
x. Tax Credit on Domestic Capital Equipment and Services - A tax credit equivalent to one hundred percent (100%) of the value of the VAT and custom duties that would have been paid on the RE machinery, equipment, materials and parts had these items been imported shall be given to an RE operating contract holder who purchases machinery, equipment, materials, and parts from a domestic manufacturer for purposes set forth in the Act.

RE developers and local manufacturers, fabricators and suppliers of locally-produced RE equipment shall register with the DOE, through the Renewable Energy Management Bureau (REMB). Upon registration, a certification shall be issued to each RE developer and local manufacturer, fabricator and supplier of locally-produced renewable energy equipment to serve as the basis of their entitlement to the incentives provided for in the Act. All certifications required to qualify RE developers to avail of the incentives provided for under the Act shall be issued by the DOE through the REMB.

32. **Electric Power Industry Reform Act (EPIRA)**

After emerging from the crippling power crisis that occurred in the early 1990s, the Philippine Government embarked on an industry privatization and restructuring program envisioned to ensure the adequate supply of electricity to energize its developing economy. This restructuring scheme is embodied in RA No. 9136, the EPIRA. Approved on June 8, 2001, the EPIRA seeks to ensure quality, reliable, secure and affordable electric power supply; encourage free and fair competition; enhance the inflow of private capital; and broaden the ownership base of power generation, transmission and distribution.

The Government viewed restructuring and reform as a long-term solution to the problems of the power sector. The huge investment requirement for new generation capacity and expansion of the necessary transmission and distribution network was estimated at an annual average of $1.0 billion. Given its own fiscal constraints, the Government recognized the need for greater private sector involvement in the power sector. Even though some private sector participation was successfully introduced earlier between the NPC and private investors, this time, the Government is envisioning addressing the power sector inefficiencies and the monopoly in the generation business. EPIRA mandated the overall restructuring of the Philippine electric power industry and called for the privatization of NPC. The restructuring of the electricity industry calls for the separation of the different components of the power sector, namely: generation, transmission, distribution, and supply. On the other hand, the privatization of the NPC involves the sale of the state-owned power firm’s generation and transmission assets (e.g. power plants and transmission facilities) to private investors. These two reforms are aimed at encouraging greater competition and attracting more private-sector investments in the power industry.

A more competitive power industry will in turn result in lower power rates and a more efficient delivery of electricity supply to end-users.

Specifically, the EPIRA has the following objectives:

- Achieve transparency with the unbundling of the main components of electricity services, which will be reflected in the consumers’ electricity rates;
- Opening up of the electricity market to competition at the wholesale (generation) level to improve efficiency in the operation of power plants and redound to lower electricity prices;
- Enhance further inflow of private capital and broaden ownership base in generation, transmission distribution, and supply of electric power;
- Establish a strong and independent regulatory body that will balance the interest of both the investors by promoting competition through creation of a level playing field and protect the electricity end-users from any market power abuses and anti-competitive behaviors; and
- Accelerate and ensure the total electrification of the country.

33. **Material Contracts and Agreements**

Foreign Petroleum Operations

Oil revenue is recognized upon transfer of crude oil to the buyer at the delivery point.

Exploration and Production Sharing Contract - Gabon, West Africa

The Etame permit consists of an offshore exploration area of 307,360 hectares that extends from depths of 200 meters in the Atlantic shelf to the near-shore Gabon. PetroEnergy, together with its joint venture partners (JV) composed of Addax Petroleum Etame, Inc. (formerly PanOcean Energy Gabon Corp.); Sasol Petroleum West Africa Limited; Tullow Oil Gabon S.A. and VAALCO Gabon S.A., has an existing Exploration and Production Sharing Contract (EPSC) with the Republic of Gabon in West Africa. The EPSC defines the rights and obligations of the Consortium in relation to the contract area, and governs the mutual relationship and establishes the rules and terms for exploration, exploitation and production sharing. After deduction by the consortium on a part of the Net Production for the recovery of the Petroleum Costs, the remaining hydrocarbon production is shared between the Consortium and the Gabonese Government, the rate of which depends on the level of production for a given calendar month. The Consortium is likewise subject to payment of royalties, the rate of which previously depended on the volume of production for a calendar month, ranging from 3% to 17.5%. Starting July 17, 2011, by virtue of an amendment to the EPSC, the rate was fixed at 13%. In the 6th amendment to the EPSC dated September 17, 2018, the Government of Gabon granted a ten (10)-year extension on the Consortium's Exclusive Exploitations Areas under the EPSC, with two additional five (5)-year option periods.

Joint Operating Agreement - Gabon

The Joint Operating Agreement (JOA) establishes the respective rights and obligations of the members of the Consortium with regard to the operations under the EPSC, including the joint exploration, appraisal, development and production of hydrocarbon reserves from the contract area. VAALCO has been appointed as the Operator of the field and shall continue to act as such until such time that all the JV Partners decide to appoint a new Operator from among them.

Crude Oil Sales and Purchase and Services Agreement (COSPA) with Glencore Energy UK Ltd and Mercuria Energy Trading S.A.

In 2015, the JV Partners signed a COSPA with Glencore Energy UK Ltd., a company incorporated in England. The initial agreement was effective from August 1, 2015 to July 31, 2016. There were several extensions until January 31, 2019. In January 2019, the JV Partners entered into a COSPA with Mercuria Energy Trading S.A., a company incorporated in Switzerland. The agreement is effective from February 1, 2019 to January 31, 2020.

Crude Oil Sales and Purchase and Services Agreement (COSPA) with Exxon Mobil Sales and Supply LLC

On December 20, 2019, the JV Partners signed a COSPA with Exxon Mobil Sales and Supply LLC, a company incorporated under the laws of the State of Delaware and having its registered office at 251 Little Falls Drive, Wilmington DE 19808. The agreement is effective from February 1, 2020 until January 31, 2021.

Philippine Petroleum Operations

The Group is part of various consortia for the following petroleum service contracts (see Notes 10 and 11):

Service Contract (SC)	
SC 6A	Octon, Northwest Palawan
SC 14-C2	West Linapacan
SC 75	Offshore, Northwest Palawan

Under the SCs entered into with the Department of Energy (DOE) covering the petroleum contract areas located in the Philippines described above, the participating oil companies (collectively known as "Contractors") are obliged to provide, at their sole risk, the services, technology and financing necessary in the performance of their obligations under these contracts. The Contractors are also obliged to spend specified amounts indicated in the contract in direct proportion to their work obligations. Should the Contractors fail to comply with their work obligations, they shall pay to the government the amount they should have spent but did not in direct proportion to their work obligations. The participating companies have Joint Operating Agreements among themselves which govern their rights and obligations under these contracts.

At present, all of the above are in the exploration stage, and the Group, except as to SC 75, is carried free up to at least the drilling of the first well (see Note 11).

Renewable Energy Projects

Revenues from sale of electricity using renewable energy is consummated and recognized over time whenever the electricity generated by the Group is transmitted through the transmission line designated by the buyer, for a consideration.

Set out below is the disaggregation of the Group's revenue from contracts with customers for the year ended December 31, 2019:

Revenue from electricity supply agreement	₱1,197,778,853
Revenue sales under Feed-in-Tariff (FIT)	573,328,604
	₱1,771,107,457

Wind Energy Service Contract (WESC) No. 2009-09-002

The service contract for the Nabas Wind Power Project (NWPP) covers 2,000 hectares of public and private lands in rolling terrain located near the northwestern tip of Panay Island. It lies about 6 km southeast of Caticlan, and electricity-deficient Panay and Boracay islands are natural markets of future power from Nabas or the Nabas WESC. In 2012, activities were focused on securing critical government permits, completing technical feasibility studies and initiating requests for engineering, procurement and construction bids. PetroGreen incorporated PetroWind on March 6, 2013 to undertake the NWPP.

It was decided that the NWPP will be constructed in two phases: Phase 1 for the existing 36 MW NWPP-1, consisting of 18 Wind Turbine Generators (WTG); while Phase 2 will be a 14 MW development that will have seven (7) WTGs (NWPP-2).

On May 26, 2013, the DOE issued the Confirmation of Commerciality of the 36 MW NWPP-1, making it the third WESC to be declared commercial. This converted the Nabas WESC from the Pre-Development Stage to the Development Stage, enabling PetroWind to proceed with the construction and development of the NWPP-1. EEI Corporation (EEI) was engaged to conduct the civil works consisting of the construction of the access roads, temporary landing pad and the WTG foundation. Cendaur Engineering was contracted to undertake the construction of the transmission line and substation. Gamesa Eolica SL Unipersonal, a Spanish company, and its Philippine Branch were engaged to supply, transport and install the WTGs. Construction of NWPP-1 started in December 2013 and was completed in the first half of 2015.

On March 24, 2015, PetroWind successfully energized and dispatched power from 8 WTGs (WTGs 1-8) to the Visayas grid. On April 17, 2015, the DOE issued its Nomination for FIT Eligibility of NWPP-1. The DOE also released on April 30, 2015, its Certificate of Endorsement (COE) for the NWPP-1, which is one of the requirements for the ERC to process PetroWind's COC for the power facility and for FIT eligibility. By June 2015, all 18 WTGs became operational. On June 16, 2015, the DOE released the COE for FIT Eligibility (COE-FIT), endorsing the official start of commercial operation to be June 10, 2015. The ERC also completed the site visit for DOE's COE-FIT validation on June 24-25, 2015. On August 17, 2015, the ERC approved PWEI's COC for NWPP-1. This confirms the commercial operations date of the wind farm to be June 10, 2015.

In 2017, recently-merged WTG supplier, Siemens Gamesa Renewable Energy (SGRE), completed the following maintenance works on site: a) 24-month WTG maintenance in June; b) 30-month WTG maintenance in November; c) semi-annual electrical maintenance in October; and d) several and specific corrective works on the WTG blades and electrical modules.

Major and long-lead equipment spares, such as WTG transformer, generator, and gearbox, were acquired to avoid long and unplanned shutdowns due to sudden equipment failure, similar to those that recently plagued other Philippine wind developers.

Siemens Gamesa Renewable Energy completed its 36-Month WTG maintenance works, which started on April 16, 2018. The annual preventive maintenance works for the 69-kV electrical facilities (Substation, Switching Station, and Control Building equipment) were also completed on April 21-22, 2018.

To maintain operational efficiency of the windfarm, O&M contractor SGRE completed its 48-Month (48M) and 54-Month (54M) WTG maintenance works in April and October 2019, respectively. In parallel, the annual preventive maintenance for the 69-kV electrical facilities was also conducted by Airnergy and Renewables, Inc. from April 11 to 12, 2019.

On December 25, 2019, Typhoon Ursula (with international name Phanfone) hit the Visayas region, affecting several WTGs. These were put back on line in January to February 2020.

The annual total energy exported to the grid were 110.09 GWh, 116.86 GWh, and 97.85 GWh in 2019, 2018, and 2017, respectively.

Shareholders Agreement (SHA)

On May 16, 2017, PetroGreen entered into a Shareholders Agreement (SHA) with EEI Power Corporation (EEIPC) and BCPG Wind Cooperatief U.A. (BCPG). The SHA governs the relations of these three companies as shareholders of PWEI and define their respective rights and obligations as such.

Omnibus Loan and Security Agreement (OLSA) with DBP

On November 4, 2013, PetroWind executed an OLSA with the Development Bank of the Philippines for a loan facility of up to ₱2.8 billion to fund the 70% debt portion of the project cost of Nabas 1. PetroWind signed the OLSA as a borrower, while PetroGreen signed as a guarantor, pledgor and third Party Mortgagor. The loan amount was later increased to ₱3 billion.

Renewable Energy Payment Agreement (REPA)

Consequent to the issuance of FIT COC in its favor, PetroWind entered into a REPA with the National Transmission Corporation (TransCo) on July 30, 2015. Under the REPA, TransCo shall pay the FIT Rate of ₱7.40/kWh for all metered generation of PetroWind for a period of twenty (20) years from start of Commercial Operations.

Geothermal Renewable Energy Service Contract (GRESC)

On February 1, 2010, PetroEnergy signed GRESC No. 2010-02-012 covering the Maibarara Geothermal Field in Laguna and Batangas areas, following a Philippine Energy Contracting Round for Geothermal held by the DOE in November 2009, where PetroEnergy emerged as the lone qualified bidder.

On August 11, 2010, the SEC approved the incorporation of MGI, whose principal business is to develop and operate geothermal steam fields and power plants. The GRESC was then assigned to MGI. PetroEnergy, through PetroGreen, holds a 65% interest in MGI, while Trans-Asia Oil and Energy Development Corporation ("Trans-Asia", subsequently renamed as PHINMA Energy Corporation or "PHINMA", and now known as AC Energy Philippines, Inc. or "ACEPH") and PNOC Renewables Corporation (PNOC RC) holds 25% and 10% interests, respectively.

MGI developed the 20 MW MGPP-1, which was put on commercial operation on February 8, 2014. The MGPP-1 is the first commercial geothermal power facility under the administration of President Benigno S. Aquino, III and the first renewable energy (RE) project to go commercial under the 2008 RE Law.

On March 9, 2018, MGI's newly completed 12 MW MGPP-2 started exporting power to the Luzon Grid and official commenced commercial operations on April 30, 2018.

On January 8, 2019, the ERC notified MGI that its application for the renewal of its COC for MGPP-1 and MGPP-2 was approved by the ERC En Banc on December 4, 2018.

Joint Venture Agreement (JVA)

On May 19, 2010, PetroEnergy's subsidiary, PetroGreen entered into a JVA with Trans-Asia (now ACEPH) and PNOC RC whereby these companies agreed to pool their resources together to form a joint venture company to develop and operate the Maibarara geothermal field.

Omnibus Loan and Security Agreement (OLSA) with RCBC and BPI

On September 26, 2011, MGI executed an OLSA with Rizal Commercial Banking Corporation (RCBC) and Bank of the Philippine Islands (BPI) for a ₱2.40 Billion loan facility to fund the 70% loan portion of the project cost of MGPP 1. PetroGreen signed as sponsor, pledgor and third-party mortgagor.

₱2.10 Billion Project Loan Facility Agreement (OLSA) with RCBC

On September 5, 2016, MGI executed a ₱2.10 Billion Project Loan Facility with RCBC to be used for the consolidation of MGI's outstanding Term Loans under the 2011 OLSA and incidental costs in connection with the consolidation, and to finance the working capital requirements and other general corporate purposes of MGI.

₱1.40 Billion Project Loan Facility Agreement with RCBC

On May 19, 2016, MGI entered into a ₱1.40 Billion Project Loan Facility Agreement with RCBC to finance up to 70% of the Project Cost of the 12 MW MGPP-2.

ESA for MGPP-1 and MGPP-2

On September 16, 2011 MGI executed an Electricity Supply Agreement (ESA-1) with Trans-Asia (now ACEPH), wherein MGI agreed to sell to Trans-Asia (now ACEPH) the entire generated output of MGPP-1 for a period of 20 years commencing from commercial operations on February 8, 2014. On April 26, 2016, MGI entered into another Electricity Supply Agreement (ESA-2) with Trans-Asia (then renamed as PHINMA Energy Corporation and now ACEPH), wherein MGI agreed to sell to PHINMA (now ACEPH) the entire generated output of the MGPP-2 for a period of 20 years from start of commercial operations on April 30, 2018.

On 23 August 2019, MGI and PHINMA (now ACEPH) executed the Amendment to the Unit 1 ESA and Unit 2 ESA which, among others, extended the effectivity of both ESA-1 and ESA-2 until June 25, 2039.

Solar Energy Service Contract for Tarlac

On March 25, 2015, PetroGreen signed with the DOE a service contract for a 10-50 MW_{DC} Solar Power Project near Hacienda Luisita, Tarlac: Solar Energy Service Contract No. 2015-03-115 (SESC).

On June 17, 2015, the SEC approved the incorporation of PetroSolar. PetroGreen then assigned the SESC to PetroSolar, wherein PetroGreen and EEIPC hold 56% and 44% equity interests, respectively. The TSPP-1 was put on commercial operation on February 10, 2016.

By the end of December 2018, PetroSolar started the construction of the 20 MW_{DC} TSPP-2. The TSPP-2 was completed on March 2019 and underwent commissioning and testing on April 22, 2019. PetroSolar is now waiting for the ERC's issuance of COC for TSPP-2.

Omnibus Loan and Security Agreement (OLSA) with Philippine National Bank (PNB)

On November 12, 2015, PSC executed an OLSA with the PNB for a loan facility of up to ₱2.6 billion to fund the 75% debt portion of the project cost of TSPP-1. PetroEnergy signed the OLSA as a Sponsor while PetroGreen signed as a Sponsor, Pledgor and Third-party Mortgagor. The TSPP-2 was funded through equity contributions and loans from its stockholders and through internally generated funds from the TSPP-1.

Renewable Energy Payment Agreement (REPA)

Consequent to the issuance of FIT COC in its favor, PetroSolar entered into a REPA with the TransCo on April 6, 2016. Under the REPA, TransCo shall pay the FIT Rate of ₱8.69/kWh for all metered generation of PSC for a period of twenty (20) years from start of Commercial Operations.

Solar Energy Service Contract (SESC) No. 2017-01-360 – Puerto Princesa, Palawan

The Service Contract for the Puerto Princesa Solar Power Project (PPSPP) was signed by DOE Secretary Alfonso Cusi on February 27, 2017. The PPSPP aims to put up a 10-20 MW off-grid solar hybrid power facility in Puerto Princesa City, Palawan to meet the increasing electricity demand and address the fluctuating electricity situation in the city through solar power.

Pre-development works have been commenced already, including technical and financial due diligence studies. Major permits such as the host local government unit's favorable endorsements, the Strategic Environmental Plan (SEP) Clearance from the Palawan Council for Sustainable Development (PCSD), the Environmental Compliance Certificate (ECC) from the DENR-EMB Region IV-B, and the Certificate of Non-Overlap from the National Commission on Indigenous Peoples (NCIP), were already secured.

PetroGreen has secured all local government endorsements needed for eventual facility development. In January 2020, PGEC was among seven (7) pre-qualified bidders for the 20-MW Palawan Main Grid Competitive Selection Process (CSP) of the Palawan Electric Cooperative (PALECO). The CSP schedule of PALECO is slated for mid-2020, and PALECO aims to award the Power Supply Agreement (PSA) to the winning proponent within 2020. After which, the winning proponent will be required to put up the power generation facility within one (1) year. The final investment decision to proceed with actual power plant construction depends on securing this PSA with PALECO.

On March 12, 2020, PALECO issued a bulletin which states that the submission and opening of bids was postponed until further notice.

Wind Energy Service Contract (WESC) No. 2017-09-118 – San Vicente, Palawan

On November 11, 2019, the DOE officially awarded to PetroGreen the San Vicente, Palawan WESC. The WESC, effective October 9, 2019, vests PetroGreen with the rights and responsibilities to harness wind energy and develop and operate the corresponding renewable energy facility in the area. The proposed project is situated in the municipality of San Vicente, Palawan, approximately 130 km north of Puerto Princesa.

34. Events After the Reporting Period

In a move to contain the COVID-19 outbreak, on March 13, 2020, the Office of the President of the Philippines issued a Memorandum directive to impose stringent social distancing measures in the National Capital Region effective March 15, 2020. On March 16, 2020, Presidential Proclamation No. 929 was issued, declaring a State of Calamity throughout the Philippines for a period of six (6) months and imposed an enhanced community quarantine throughout the island of Luzon until April 12, 2020. For selected areas, including Metro Manila, this was subsequently extended to May 31, 2020. The ECQ was lifted and replaced by general community quarantine (GCQ) starting June 1, 2020. These measures have caused disruptions to businesses and economic activities, and its impact on businesses continue to evolve. Manpower for operations may be affected due to the state-imposed self-quarantine, partial lockdown, and curfew.

With the enforcing of national and localized community quarantines, the Group has issued guidelines to mitigate risks, ensure business continuity, and safeguard the health and safety of its employees. As an energy company with investments in petroleum and renewable energy, the Group is exposed to operational risks.

Manpower for operations may be affected due to state-imposed self-quarantine, partial lockdown, and curfew. To address this, the management has devised an alternative working arrangement of work-from-home and skeletal workforce scheme for its employees. Business support units were equipped with appropriate protocols and digital tools to be able to support the operations unit and ensure continuity of business operations. The management also ensured that the insurance coverage maintained for the Group would adequately compensate for any business interruptions.

Due to travel restrictions, scheduled power plant maintenance by third-party foreign suppliers may also be affected. In preparation for this, the Group has communicated with its Operations and Maintenance (O&M) providers to strengthen its remote support and provide contingencies. The Group has also ensured that the insurance coverage maintained for the Group, its subsidiaries and affiliates, would adequately compensate for any business interruptions.

For the oil operations in Gabon, the Group constantly communicated with the Operator and monitored the effect of the COVID-19 pandemic in the Gabon oil field. The Operator ensured that there is continued operations in the oil field, even with travel restrictions in the country.

In addition, there is also the risk relating to compliance with regulatory permits and submissions due to changes in work schedule in both the public and private sectors. As a response, the Group regularly monitors the advisories from relevant Government agencies, such as the DOE, to ensure that requirements are submitted on time.

The Group assures its shareholders and other stakeholders that it will be able to continuously deliver its commitments and perform its business functions, amid the effects of the COVID-19 pandemic.

The Group considers the events surrounding the outbreak as non-adjusting subsequent events, which do not impact its financial position and performance as of and for the year ended December 31, 2019. However, the outbreak could have a material impact on its 2020 financial results and even periods thereafter. Considering the evolving nature of this outbreak, the Group cannot determine at this time the impact to its financial position, performance and cash flows. The Group will continue to monitor the situation

SGV
Building a better working world

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ey.com/ph

BOA/PRC Reg. No. 0001,
October 4, 2018, valid until August 24, 2021
SEC Accreditation No. 0012-FR-5 (Group A),
November 6, 2018, valid until November 5, 2021

INDEPENDENT AUDITOR'S REPORT
ON SUPPLEMENTARY SCHEDULES

The Board of Directors and Stockholders
PetroEnergy Resources Corporation
7th floor, JMT Building, ADB Avenue
Ortigas Center, Pasig City

We have audited in accordance with Philippine Standards on Auditing, the consolidated financial statements of PetroEnergy Resources Corporation and its subsidiaries (the Group) as at and for the years ended December 31, 2019 and 2018, and for each of the three years in the period ended December 31, 2019, included in this Form 17-A and have issued our report thereon dated June 22, 2020. Our audits were made for the purpose of forming an opinion on the basic financial statements taken as a whole. The schedules listed in the Index to the Consolidated Financial Statements and Supplementary Schedules are the responsibility of the Group's management. These schedules are presented for purposes of complying with the Revised Securities Regulation Code Rule 68 and are not part of the basic financial statements. These schedules have been subjected to the auditing procedures applied in the audit of the basic financial statements and, in our opinion, fairly state, in all material respects, the financial information required to be set forth therein in relation to the basic financial statements taken as a whole.

SYCIP GORRES VELAYO & CO.

Ana Lea C. Bergado

Ana Lea C. Bergado
Partner
CPA Certificate No. 80470
SEC Accreditation No. 0660-AR-4 (Group A),
October 22, 2019, valid until October 21, 2022
Tax Identification No. 102-082-670
BIR Accreditation No. 08-001998-63-2018,
February 14, 2018, valid until February 13, 2021
PTR No. 8125214, January 7, 2020, Makati City

June 22, 2020

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SEC Accreditation No. 0012-FR-5 (Group A),
November 6, 2018, valid until November 5, 2021

INDEPENDENT AUDITOR'S REPORT ON
COMPONENTS OF FINANCIAL SOUNDNESS INDICATORS

The Board of Directors and Stockholders
PetroEnergy Resources Corporation
7th floor, JMT Building, ADB Avenue
Ortigas Center, Pasig City

We have audited in accordance with Philippine Standards on Auditing, the financial statements of PetroEnergy Resources Corporation and its subsidiaries (the Group) as at December 31, 2019 and 2018 and for each of the three years in the period ended December 31, 2019, and have issued our report thereon dated June 22, 2020. Our audits were made for the purpose of forming an opinion on the basic financial statements taken as a whole. The Supplementary Schedule on Financial Soundness Indicators, including their definitions, formulas, calculation, and their appropriateness or usefulness to the intended users, are the responsibility of the Group's management. These financial soundness indicators are not measures of operating performance defined by Philippine Financial Reporting Standards (PFRS) and may not be comparable to similarly titled measures presented by other companies. This schedule is presented for the purpose of complying with the Revised Securities Regulation Code Rule 68 issued by the Securities and Exchange Commission, and is not a required part of the basic financial statements prepared in accordance with PFRS. The components of these financial soundness indicators have been traced to the Group's financial statements as at December 31, 2019 and 2018 and for each of the three years in the period ended December 31, 2018 and no material exceptions were noted.

SYCIP GORRES VELAYO & CO.

Ana Lea C. Bergado

Ana Lea C. Bergado
Partner
CPA Certificate No. 80470
SEC Accreditation No. 0660-AR-4 (Group A),
October 22, 2019, valid until October 21, 2022
Tax Identification No. 102-082-670
BIR Accreditation No. 08-001998-63-2018,
February 14, 2018, valid until February 13, 2021
PTR No. 8125214, January 7, 2020, Makati City

June 22, 2020

PETROENERGY RESOURCES CORPORATION AND SUBSIDIARIES
INDEX TO CONSOLIDATED FINANCIAL STATEMENTS
AND SUPPLEMENTARY SCHEDULES
SEC FORM 17-A

CONSOLIDATED FINANCIAL STATEMENTS

SUPPLEMENTARY SCHEDULES

PETROENERGY RESOURCES CORPORATION AND SUBSIDIARIES

SUPPLEMENTARY INFORMATION AND DISCLOSURES REQUIRED ON REVISED SRC RULE 68

DECEMBER 31, 2019

Philippine Securities and Exchange Commission (SEC) issued the revised Securities Regulation Code Rule SRC Rule 68 which consolidates the two separate rules and labeled in the amendment as "Part I" and "Part II", respectively. It also prescribed the additional information and schedule requirements for issuers of securities to the public.

Below are the additional information and schedules required by Revised SRC Rule 68 that are relevant to the Group. This information is presented for purposes of filing with the SEC and is not required part of the basic financial statements.

Schedule A. Financial Assets

The Group is not required to disclose the financial assets in equity securities as the total financial assets at fair value through profit and loss securities amounting to ₱8.240 million do not constitute 5% or more of the total current assets of the Group as at December 31, 2019.

Schedule B. Amounts Receivable from Directors, Officers, Employees, Related Parties and Principal Stockholders (Other than Related Parties)

As of December 31, 2019, there are no amounts receivable from directors, officers, employees, related parties and principal stockholders that aggregates each to more than ₱100,000 or 1% of total assets whichever is less.

Schedule C. Amounts Receivable from Related Parties which are Eliminated during the Consolidation of Financial Statements

The following is the schedule of receivables from related parties, which are eliminated in the consolidated financial statements as at December 31, 2019:

Name and Designation of debtor	Balance at beginning of period	Additions	Amounts Collected	Amounts written off	Not Current	Balance at end of period
PetroGreen Energy Corporation	₱7,872	₱4,164,208	₱4,172,080	₱–	₱–	₱–
Maibarara Geothermal, Inc.	1,271,266	4,480,390	5,751,656	–	–	–
PetroSolar	604	4,422,804	4,423,408	–	–	–
	₱1,279,742	₱13,067,402	₱14,347,144	₱–	₱–	₱–

Please refer to Note 25 of the Consolidated Financial Statements.

Schedule D. Long-term Debt

Please refer to the Consolidated Audited Financial Statement, Note 17 for details of the loans.

Schedule E. Indebtedness to Related Parties (Long-Term Loans from Related Companies)

The Group has no outstanding long-term indebtedness to related parties as of December 31, 2019.

Schedule F. Guarantees of Securities of Other Issuers

The Group does not have guarantees of securities of other issuers as of December 31, 2019.

Schedule G. Capital Stock

Title of issue	Number of shares authorized	Number of shares issued and outstanding as shown under related balance sheet caption	Number of Shares reserved for options, warrants, conversion and other rights	Number of shares held by related parties	Directors, Officers and Employees	Others
Common Shares	700,000,000	568,711,842	–	165,468,725	5,769,751	397,473,366

PETROENERGY RESOURCES CORPORATION AND SUBSIDIARIES

SCHEDULE OF FINANCIAL SOUNDNESS INDICATORS
AS OF DECEMBER 31, 2019 and 2018

Financial Soundness Indicators

Below are the financial ratios that are relevant to the Group for the year ended December 31, 2019 and 2018:

Financial ratios		**2019**	2018
Current ratio (under page 31, KPI)	Total current assets / Total current liabilities	**1.37:1**	2.20:1
Acid test ratio	Total current assets – inventories – other current assets / Total current liabilities	**0.90:1**	2.20:1
Solvency ratio	After tax net profit + depreciation / Long-term + short-term liabilities	**0.16:1**	0.18:1
Debt-to-Equity Ratio (under page 31, KPI)	Total liabilities / Total stockholder's equity	**0.84:1**	0.92:1
Asset-to-Equity Ratio (under page 31, KPI)	Total assets / Total stockholder's equity	**1.84:1**	1.92:1
Interest rate coverage ratios	Earnings before interest and taxes (EBIT) / Interest expense*	**2.33:1**	2.82:1
Return on equity	Net income / Average shareholder's equity	**7.68%**	11.88%
Return on assets	Net income / Average assets	**4.09%**	2.81%
Return on revenue	Net income / Total revenue	**25.16%**	32.14%
Earnings per share	Net income / Weighted average no. of shares	**₱0.5149**	₱0.7407
Price Earnings Ratio	Closing price / Earnings per share	**₱7.96**	₱4.73
Long term debt-to-equity ratio	Long term debt	**0.62:1**	0.84:1

	Equity		
EBITDA to total interest paid	EBITDA** / Total interest paid	**3.64**	3.85

**Interest expense is capitalized as part of the construction-in-progress account under PPE.*
***Earnings before interest, taxes, depreciation and amortization (EBITDA)*

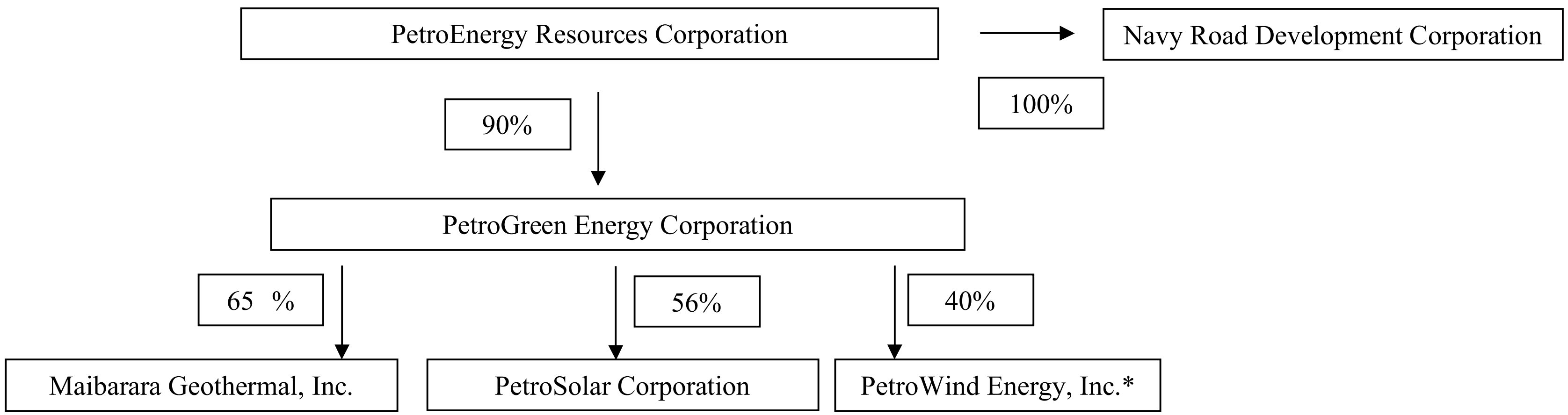
PETROENERGY RESOURCES CORPORATION AND SUBSIDIARIES

MAP OF RELATIONSHIPS OF THE COMPANIES WITHIN THE GROUP

Group Structure
Below is a map showing the relationship between and among the Group and its subsidiaries as of December 31, 2019:

PETROENERGY RESOURCES CORPORATION

GROUP STRUCTURE



*investment in a joint venture

PETROENERGY RESOURCES CORPORATION

SCHEDULE OF RETAINED EARNINGS AVAILABLE FOR DIVIDEND DECLARATION
DECEMBER 31, 2019

Unappropriated retained earnings, beginning	**₱80,454,452**
Prior year adjustments:	
Recognized gross deferred income tax assets, beginning	**12,723,297**
Unrealized marked-to-market gain on FVTPL	**(5,079,393)**
Unappropriated retained earnings, as adjusted, January 1, 2019	**88,098,356**
Net income based on the face of unaudited financial statements	**37,056,507**
Movement in gross deferred tax assets	**5,469,236**
Unrealized foreign exchange loss - net (except those attributable to cash and cash equivalents)	**2,327,820**
Fair value adjustment - marked-to-market loss	**242,610**
Net loss actual/realized	**45,096,173**
TOTAL RETAINED EARNINGS AVAILABLE FOR DIVIDEND DECLARATION, DECEMBER 31, 2019	**₱133,194,529**

COVER SHEET

AS094-08880

SEC Registration Number

PETROENERGY RESOURCES CORPORATION
AND SUBSIDIARIES

(Company's Full Name)

7TH FLOOR JMT BUILDING
ADB AVENUE ORTIGAS CENTER
PASIG CITY

(Business Address: No. Street City/Town/Province)

Carlota R. Viray

(Contact Person)

637-2917

(Company Telephone Number)

12 31

Month *Day*

(Fiscal Year)

First Quarter

17-Q

08 18

Month *Day*

(Annual Meeting)

(Secondary License Type, If Applicable)

Dept. Requiring this Doc.

Amended Articles Number/Section

Total Amount of Borrowings

1,999

Total No. of Stockholders

Domestic

Foreign

To be accomplished by SEC Personnel concerned

File Number

LCU

Document ID

Cashier

S T A M P S

Remarks: Please use BLACK ink for scanning purposes.

SECURITIES AND EXCHANGE COMMISSION
SEC FORM 17-Q

QUARTERLY REPORT PURSUANT TO SECTION 11
OF THE SECURITIES REGULATION CODE (SRC)
AND SRC RULE 17(a)-1(b) (2) THEREUNDER

1. 31 March 2020
For the quarterly period ended

2. SEC Identification Number ASO94-08880 3. BIR Tax Identification No. 004-471-419-000

4. PetroEnergy Resources Corporation
Exact name of registrant as specified in its charter

5. Manila, Philippines
Province, country or other jurisdiction of incorporation

6. (SEC Use Only)
Industry Classification Code:

7. 7th Floor JMT Condominium, ADB Avenue, Pasig City 1605
Address of principal office Postal Code

8. (632) 637-2917
Registrant's telephone number, including area code

9. Not Applicable
Former name, former address and former fiscal year, if changed since last report

10. Securities registered pursuant to Sections 8 and 12 of the Code, or Section 4 and 8 of the RSA

Title of Each Class	Number of Shares of Common Stock Outstanding
Common (par value of P1.00/share)	568,711,842

Amount of Debt Outstanding = ₱6,193,775,194

11. Are any or all of the securities listed on the Philippine Stock Exchange?
All issued and outstanding common shares are listed in the Philippine Stock Exchange.

12. Indicate by check mark whether the registrant:

a. has filed all reports required to be filed by Section 11 of the Securities Regulation Code(SRC) and SRC Rule 11(a)-1 thereunder and Sections 26 and 141 of the Corporation Code of the Philippines, during the preceding 12 months (or for such shorter period the registrant was required to file such reports)

Yes [/]

b. has been subject to such filing requirements for the past 90 days

Yes [/]

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PETROENERGY RESOURCES CORPORATION AND SUBSIDIARIES

UNAUDITED CONSOLIDATED STATEMENTS OF FINANCIAL POSITION

(Amounts in Philippine Peso)

	Unaudited	Unaudited	Audited
	31-Mar-20	**31-Mar-19**	**31-Dec-19**
ASSETS			
Current Assets			
Cash and cash equivalents	₱1,085,458,463	₱1,159,197,174	₱1,066,698,077
Financial assets at fair value through profit and loss (FVPL)	5,351,629	9,278,575	8,240,096
Receivables	298,396,128	279,773,874	332,889,623
Advances, prepaid expenses and other current assets	1,022,146,871	862,292,451	739,069,787
Total Current Assets	2,411,353,091	2,310,542,074	2,146,897,583
Noncurrent Assets			
Property and equipment-net	8,507,490,401	8,371,827,243	8,536,605,048
Deferred oil exploration cost	218,362,772	236,247,437	192,958,190
Investment in Associate	1,616,179,585	1,576,514,538	1,563,732,303
Right of use of asset	397,524,339	-	403,394,701
Deferred tax assets-net	12,653,115	10,546,665	12,623,992
Investment properties-net	1,611,533	1,611,533	1,611,533
Other non-current assets	494,250,301	684,576,314	506,399,446
Total Noncurrent Assets	11,248,072,046	10,881,323,730	11,217,325,213
	13,659,425,137	**13,191,865,804**	**13,364,222,796**
LIABILITIES AND EQUITY			
Current Liabilities			
Accounts payable and accrued expenses	425,175,433	522,799,204	343,716,074
Loans payable - Current	1,185,253,029	731,283,710	1,197,555,427
Lease Liability-current	25,823,001	-	18,974,634
Income tax payable	12,487,036	9,469,400	4,019,134
Total Current Liabilities	1,648,738,499	1,263,552,314	1,564,265,269
Noncurrent Liabilities			
Loans payable - Non Current	4,120,146,644	4,947,105,639	4,102,283,436
Lease Liability- Non Current	318,854,915	-	318,854,915
Asset retirement obligation	92,047,146	64,359,302	90,621,021
Other Non-Current Liability	13,987,990	24,795,416	22,388,139
Total Noncurrent Liabilities	4,545,036,695	5,036,260,357	4,534,147,511
Total Liabilities	6,193,775,194	6,299,812,671	6,098,412,780
Equity			
Attributable to equity holders of the Parent Company			
Capital stock	568,711,842	568,711,842	568,711,842
Additional paid- in capital	2,156,679,049	2,156,679,049	2,156,679,049
Retained earnings	2,143,695,904	1,856,778,619	2,017,651,639
Equity reserve	80,049,238	80,049,238	80,049,238
Remeasurement loss on define benefit obligation	(10,120,685)	(6,287,192)	(10,120,685)
Cumulative translation adjustment	114,499,681	114,499,681	114,499,681
	5,053,515,029	4,770,431,237	4,927,470,764
Noncontrolling interest - BS	2,412,134,914	2,121,621,896	2,338,339,252
Total Equity	7,465,649,943	6,892,053,133	7,265,810,016
	₱13,659,425,137	**₱13,191,865,804**	**₱13,364,222,796**

PETROENERGY RESOURCES CORPORATION AND SUBSIDIARIES

UNAUDITED CONSOLIDATED STATEMENTS OF INCOME

(Amounts in Philippine Peso)

	Unaudited For the 1st Quarter ending	
	31-Mar-20	31-Mar-19
REVENUES		
Electricity sales	₱455,300,931	₱474,584,020
Oil revenues	101,677,345	84,156,872
	556,978,276	558,740,892
COST OF SALES		
Cost of sales - Electricity	194,858,930	192,044,933
Oil production operating expenses	62,285,312	53,521,762
Change in crude oil inventory	(4,184,314)	(5,504,817)
Depletion	13,160,926	27,428,155
	266,120,854	267,490,033
GROSS INCOME	290,857,422	291,250,859
GENERAL AND ADMINISTRATIVE EXPENSES	39,343,862	38,390,185
OTHER INCOME (CHARGES)		
Interest income	5,709,934	7,480,041
Net unrealized foreign exchange gain (loss)	692,203	(1,550,869)
Net unrealized gain on fair value changes on financial assets at FVPL	(2,888,467)	795,869
Interest expense	(93,628,095)	(101,925,607)
Accretion expense	(1,165,830)	(1,149,863)
Share in net income of an Associate	52,447,282	61,826,847
Miscellaneous income (charges)	(3,707,387)	2,509,827
	(42,540,360)	(32,013,755)
INCOME BEFORE INCOME TAX	208,973,200	220,846,919
PROVISION FOR (BENEFIT FROM) INCOME TAX	9,133,273	3,888,841
NET INCOME	**₱199,839,927**	₱216,958,078
NET INCOME ATTRIBUTABLE TO:		
Equity Holders of the Parent Company	126,044,265	131,609,034
Noncontrolling interest - IS	73,795,662	85,349,044
NET INCOME	**₱199,839,927**	₱216,958,078
EARNINGS PER SHARE FOR NET INCOME ATTRIBUTABLE TO EQUITY HOLDERS OF THE PARENT COMPANY- BASIC AND DILUTED	**0.2216**	0.2314

PETROENERGY RESOURCES CORPORATION AND SUBSIDIARIES

UNAUDITED CONSOLIDATED STATEMENTS OF COMPREHENSIVE INCOME

(Amounts in Philippine Peso)

	Unaudited For the 1st Quarter ending	
	31-Mar-20	31-Mar-19
OTHER COMPREHENSIVE INCOME (LOSS)		
Item to be reclassified to profit or loss in subsequent periods		
Movements in cumulative translation adjustment - net of tax	-	-
Item not to be reclassified to profit or loss in subsequent periods		
Remeasurement gains on net accrued retirement liability - net	-	-
TOTAL OTHER COMPREHENSIVE INCOME (LOSS)	-	-
TOTAL COMPREHENSIVE INCOME	**199,839,927**	**216,958,078**
TOTAL COMPREHENSIVE INCOME (LOSS) ATTRIBUTATBLE TO:		
Equity Holders of the Parent Company	**126,044,265**	**131,609,034**
Noncontrolling interest - IS	**73,795,662**	**85,349,044**
TOTAL COMPREHENSIVE INCOME	**199,839,927**	**216,958,078**

PETROENERGY RESOURCES CORPORATION AND SUBSIDIARIES

UNAUDITED CONSOLIDATED STATEMENTS OF CHANGES IN EQUITY

(In Philippine Peso)

		Unaudited	Unaudited	Audited
		31-Mar-20	**31-Mar-19**	**31-Dec-19**
CAPITAL STOCK				
Authorized capital	330,000,000			
Increase in capital on June 2015	370,000,000			
Total authorized capital	700,000,000			
Issued and outstanding				
Balance beginning of year	568,711,842	568,711,842	568,711,842	568,711,842
Issuance during the period	-	-	-	-
Total issued and outstanding	568,711,842			
		568,711,842	**568,711,842**	**568,711,842**
ADDITIONAL PAID-IN CAPITAL				
Balance beginning of year		2,156,679,049	2,156,679,049	2,156,679,049
Additions during the period		-	-	-
		2,156,679,049	**2,156,679,049**	**2,156,679,049**
APPROPRIATED RETAINED EARNINGS				
Balance at beginning of year		-	-	-
Reversal of appropriated retained earnings		-	-	-
		-	**-**	**-**
UNAPPROPRIATED RETAINED EARNINGS				
Balance at beginning of year		2,017,651,639	1,725,169,585	1,725,169,585
Reversal of appropriated retained earnings		-	-	-
Derecognition of Deferred Tax Asset		-	-	(353,707)
Net Income		126,044,265	131,609,034	292,835,761
		2,143,695,904	**1,856,778,619**	**2,017,651,639**
REMEASUREMENT OF NET ACCRUED RETIREMENT LIABILITY				
Balance at beginning of year		(10,120,685)	(6,287,192)	(6,287,192)
Remeasurement gain (loss) on accrued retirement liability		-	-	(3,833,493)
		(10,120,685)	**(6,287,192)**	**(10,120,685)**
CUMULATIVE TRANSLATION ADJUSTMENT				
Balance at beginning of year		114,499,681	114,499,681	114,499,681
Movement of cumulative translation adjustment		-	-	-
		114,499,681	**114,499,681**	**114,499,681**
PARENT'S OTHER EQUITY RESERVES		**80,049,238**	**80,049,238**	**80,049,238**
TOTAL EQUITY ATTRIBUTED TO EQUITY HOLDERS OF PARENT		**5,053,515,029**	**4,770,431,237**	**4,927,470,764**
NONCONTROLLING INTEREST				
Balance at beginning of year		2,338,339,252	2,008,296,872	2,008,296,872
Net income		73,795,662	85,349,044	241,096,895
Increase in non-controlling interests - stock issuances		-	2,530,480	364,305,500
Decrease in non-controlling interests - deposit (conversion)		-	25,445,500	(197,398,447)
Remeasurement loss on defined benefit obligation		-		(1,613,474)
Derecognition of Deferred Tax Asset		-		(348,094)
Cash dividends		-		(76,000,000)
		2,412,134,914	**2,121,621,896**	**2,338,339,252**
TOTAL EQUITY		**7,465,649,943**	**6,892,053,133**	**7,265,810,016**

PETROENERGY RESOURCES CORPORATION

UNAUDITED CONSOLIDATED STATEMENTS OF CASHFLOWS

(Amounts in Philippine Peso)

	Unaudited	**Unaudited**	Audited
	31-Mar-20	31-Mar-19	31-Dec-19
CASH FLOWS FROM OPERATING ACTIVITIES			
Income before income tax	**208,973,200**	220,846,919	546,112,470
Adjustments for:			
Interest expense	**93,628,095**	101,925,607	409,690,469
Depletion, depreciation and amortization	**126,712,070**	119,967,248	486,048,073
Share in net income (loss) of joint venture	**(52,447,282)**	(61,826,847)	(97,552,085)
Net unrealized foreign exchange loss (gain)	**(692,203)**	1,550,869	4,884,642
Accretion expense	**1,165,830**	1,149,863	4,505,825
Dividend income	**(13,500)**	-	(61,586)
Gain on sale of property, plant and equipment	**(276,786)**	-	(345,134)
Net loss (gain) on fair value changes on financial assets at fair value through profit or loss	**2,888,467**	(795,869)	242,610
Interest income	**(5,709,934)**	(7,480,041)	(44,025,392)
Movement in accrued retirement liability	**-**	-	(397,681)
Operating income before working capital changes	**374,227,957**	375,337,749	1,309,102,211
Decrease (increase) in:			
Receivables	**35,139,065**	75,837,225	22,257,025
Prepaid expenses and other current assets	**(82,086,023)**	(91,398,009)	(151,914,259)
Input VAT	**28,692,339**	55,779,426	81,022,587
Increase (decrease) in:			
Accounts payable and accrued expenses	**16,629,253**	399,616,009	19,522,566
Cash generated from (used in) operations	**372,602,591**	815,172,400	1,279,990,130
Interest received	**5,064,364**	7,321,943	44,531,743
Income taxes paid	**(665,371)**	(129,369)	(16,194,063)
Net cash provided by (used in) operating activities	**377,001,584**	822,364,974	1,308,327,810
CASH FLOWS FROM INVESTING ACTIVITIES			
Acquisitions of property, plant and equipment	**(89,614,431)**	(552,974,167)	(941,313,683)
Acquisitions of computer software and other intangible	**-**	-	(9,821,503)
(Increase)/decrease in Other noncurrent assets	**(15,542,694)**	(41,674,803)	96,167,613
Withdrawal from (contribution to) restricted cash	**(200,991,061)**	(171,167,320)	160,000,000
Advances to contractors	**-**		(29,300,000)
Increase in deferred oil exploration costs	**(25,404,582)**	(5,919,249)	(19,606,158)
Increase in deferred development costs	**(3,113,130)**	11,472,864	(39,144,180)
Proceeds from:			
disposals of property, plant and equipment	**276,786**	29,333	1,839,579
Dividends received	**13,500**	12,000,000	60,061,586
Net cash used in investing activities	**(334,375,612)**	(748,233,342)	(721,116,746)
CASH FLOWS FROM FINANCING ACTIVITIES			
Proceeds from:			
Availments of loans	**-**		546,347,841
Deposits for future stock subscriptions to non-controlling	**-**	25,445,500	–
Issuance of stocks to non-controlling interest	**-**	2,530,480	166,907,053
Payments of:			
Loans	**-**	-	(940,520,781)
Interest	**(21,813,332)**	(296,968,917)	(382,505,451)
Dividends to Non-Controlling Interest	**-**	-	(76,000,000)
Principal portion of lease liabilities	**(136,290)**	-	(17,958,027)
Dividends by the Parent Company	**-**	-	(9,500)
Increase in other noncurrent liabilities	**(2,839,339)**	(2,242,701)	-
Net cash provided by financing activities	**(24,788,961)**	(271,235,638)	(703,738,865)
EFFECT OF FOREIGN EXCHANGE RATE CHANGES ON CASH AND CASH EQUIVALENTS	**923,375**	(2,976,660)	(4,884,642)
NET INCREASE (DECREASE) IN CASH AND CASH EQUIVALENTS	**18,760,386**	(200,080,666)	(121,412,443)
CASH AND CASH EQUIVALENTS, BEGINNING	**1,066,698,077**	1,359,277,840	1,188,110,520
CASH AND CASH EQUIVALENTS, END	**1,085,458,463**	1,159,197,174	1,066,698,077

1. **Corporate Information**

a. Organization

PetroEnergy Resources Corporation ("PERC" or "PetroEnergy" or the "Parent Company") is a publicly-listed domestic corporation. Its registered office and principal place of business is 7th Floor, JMT Building, ADB Avenue, Ortigas Center, Pasig City.

PERC was organized on September 29, 1994 as Petrotech Consultants, Inc. to provide specialized technical services to its then parent company, Petrofields Corporation, and to companies exploring for oil in the Philippines.

In 1997, PERC simultaneously adopted its present name and changed its primary purpose to oil exploration and development and mining activities. Subsequently in 1999, PERC assumed Petrofields' oil exploration contracts in the Philippines and the Production Sharing Contract covering the Etame discovery block in Gabon, West Africa.

On August 11, 2004, PERC's shares of stock were listed at the Philippine Stock Exchange (PSE) by way of introduction.

In 2009, following the enactment of Republic Act No. 9513, otherwise known as the "Renewable Energy Act of 2008" (RE Law), PERC amended its articles of incorporation to include among its purposes the business of generating power from renewable sources such as, but not limited to, biomass, hydro, solar, wind, geothermal, ocean and such other renewable sources of power.

On March 31, 2010, PERC incorporated PetroGreen Energy Corporation ("PetroGreen" or "PGEC"), its 90%-owned subsidiary, to act as its renewable energy arm and holding company. PGEC ventured into renewable energy development and power generation through its subsidiaries and affiliate: (a) Maibarara Geothermal, Inc. ("MGI", 65%-owned) - owner and Renewable Energy (RE) developer of the 20 MW Maibarara Geothermal Power Project (MGPP-1) in Santo Tomas, Batangas and its expansion, the 12 MW MGPP-2; (b) PetroSolar Corporation ("PetroSolar", 56%-owned) - owner and RE developer of the 50 MW_{DC} Tarlac Solar Power Project (TSPP-1) in Tarlac City and its 20 MW_{DC} expansion (TSPP-2); and (c) PetroWind Energy, Inc. ("PetroWind", 40%-owned) - owner and developer of the 36 MW Nabas Wind Power Project (NWPP-1) in Nabas and Malay, Aklan.

MGI and PetroSolar are effectively indirect subsidiaries of PetroEnergy through PetroGreen. PetroGreen owns majority of the voting power of MGI and PetroSolar. PetroEnergy, PetroGreen, MGI and PetroSolar are collectively referred to as the "Group" and were incorporated in the Philippines.

b. Nature of Operations

The Group's four (4) main energy businesses are: (a) upstream oil exploration and development, and power generation from renewable energy resources such as, (b) geothermal, (c) solar, and (d) wind, through the Group's affiliate, PetroWind.

Upstream Oil Exploration and Development

Petroleum production is on-going in the Etame (Gabon) concession, while the other petroleum concessions in the Philippines are still in the advanced exploration stages or pre-development stages.

Geothermal Energy
The geothermal projects are the 20 MW MGPP-1 in Sto. Tomas, Batangas that started commercial operations on February 8, 2014 and its expansion, the 12 MW MGPP-2 that started commercial operations on April 30, 2018.

Solar Energy
The Solar power projects are the 50 MWDC TSPP-1 in Tarlac City, Tarlac that started commercial operations on February 10, 2016 and its 20 MWDC expansion (TSPP-2) which has been commissioned and tested in April-22 2019 and is now awaiting the issuance of a Certificate of Compliance (COC) from the Energy Regulatory Commission (ERC).

Wind Energy
The wind energy project is the 36-MW NWPP-1 in Nabas, Aklan, where PetroWind has a wind farm.

c. Approval of Consolidated Financial Statements
The accompanying consolidated financial statements were approved and authorized for issue by the Board of Directors (BOD).

2. Basis of Preparation

Basis of Preparation
The accompanying consolidated financial statements have been prepared under the historical cost basis, except for financial assets carried at fair value through profit or loss (FVTPL) which are measured at fair value and crude oil inventory which is valued at net realizable value (NRV).

The financial statements are presented in Philippine Peso (PHP or ₱), which is the Parent Company's functional currency. All amounts are rounded to the nearest PHP unless otherwise stated.

Statement of Compliance
The accompanying consolidated financial statements have been prepared in compliance with Philippine Financial Reporting Standards (PFRS).

3. Changes in Accounting Policies

The accounting policies adopted in the preparation of the interim financial statements are consistent with those followed in the preparation of the Group's annual financial statements for the year ended December 31, 2019, except for the adoption of the following amendments and improvements to existing standards and interpretations, which were effective beginning January 1, 2020.

- Amendments to PFRS 3, *Definition of a Business*
- Amendments to PAS 1, *Presentation of Financial Statements*, and PAS 8, *Accounting Policies, Changes in Accounting Estimates and Errors*, *Definition of Material*

Standards Issued but not yet Effective

Pronouncements issued but not yet effective are listed below. The Group is currently assessing the impact of the following standards and plans to adopt the new standards when these become effective.

Effective beginning on or after January 1, 2021

- PFRS 17, *Insurance Contracts*

Deferred effectivity

- Amendments to PFRS 10, *Consolidated Financial Statements*, and PAS 28, *Sale or Contribution of Assets between an Investor and its Associate or Joint Venture*

The Group continues to assess the impact of the above new and amended accounting standards and interpretations for the year 2020. Additional disclosures required by these new pronouncements will be included in the financial statements when these are adopted.

4. **Summary of Significant Accounting Policies**

Basis of Consolidation
The consolidated financial statements comprise the financial statements of the Group as at March 31, 2020, December 31, 2019 and March 31, 2019 and for each of the three years in the period ended December 31, 2019. The financial statements of the subsidiaries are prepared in the same reporting year as the Group, using consistent accounting policies.

Below are the Group's subsidiaries, which are all incorporated in the Philippines, with its respective percentage ownership as of March 31, 2020, December 31, 2019, March 31, 2019:

PetroGreen	90%
Percentage share of PetroGreen in its subsidiaries:	
MGI	65%
PetroSolar	56%
Navy Road Development Corporation (NRDC)	100%

Subsidiaries are entities controlled by PERC. PERC controls an investee if and only if PERC has:

a) Power over the investee (i.e. existing rights that give it the current ability to direct the relevant activities of the investee);
b) Exposure, or rights, to variable returns from its involvement with the investee; and
c) The ability to use its power over the investee the amount of the investor's returns.

When PERC has less than a majority of the voting or similar rights of an investee, PERC considers all relevant facts and circumstances in assessing whether it has power over an investee, including:

a) the contractual arrangement with the other vote holders of the investee;
b) rights arising from other contractual arrangements; and
c) the Group's voting rights and potential voting rights.

PERC re-assesses whether or not it controls an investee if facts and circumstances indicate that there are changes to one or more of the three elements of control. Consolidations of a subsidiary begins when PERC obtains control over the subsidiary and ceases when PERC loses control of the subsidiary.

Assets, liabilities, income and expenses of a subsidiary acquired or disposed of during the year are included in the consolidated statement of comprehensive income from the date PERC gains control until the date PERC ceases to control the subsidiary.

The consolidated financial statements are prepared using uniform accounting policies for like transactions and other events in similar circumstances. Adjustments where necessary are made to ensure consistency with the policies adopted by the Group. All intra-group balances and transactions, intra-group profits and expenses and gains and losses are eliminated during consolidation. All intra-group balances, transactions, income and expenses and profit and losses are eliminated in full.

A change in the ownership interest of a subsidiary, without loss of control, is accounted for as an equity transaction, as transactions with the owners in their capacity as owners. For purchases from non-controlling interests, the difference between any consideration paid and the relevant share acquired of the carrying value of net assets of the subsidiary is recorded in equity. Gains or losses on disposals to non-controlling interests are also recorded in equity.

If the Group loses control over a subsidiary, it:

- derecognizes the assets (including goodwill) and liabilities of the subsidiary, the carrying amount of any non-controlling interest and the cumulative translation differences recorded in equity.
- recognizes the fair value of the consideration received, the fair value of any investment retained and any surplus or deficit in the consolidated statement of comprehensive income.
- reclassifies the parent's share of components previously recognized in other comprehensive income (OCI) to the consolidated statement of comprehensive income or retained earnings, as appropriate.

Non-controlling interests are presented separately from the Parent Company's equity. The portion of profit or loss and net assets in subsidiaries not wholly owned are presented separately in the consolidated statement of comprehensive income and consolidated statement of changes in equity, and within equity in the consolidated statement of financial position.

Cash and Cash Equivalents
Cash includes cash on hand and in banks. Cash equivalents are short-term, highly liquid investments that are readily convertible to known amounts of cash with original maturities of three (3) months or less from the dates of acquisition and that are subject to an insignificant risk of change in value.

Financial Instruments
A financial instrument is any contract that gives rise to a financial asset of one entity and a financial liability or equity instrument of another entity.

Financial assets - Initial recognition and measurement
Financial assets are classified, at initial recognition, as subsequently measured at amortized cost, fair value through other comprehensive income (FVTOCI), and FVTPL.

The classification of financial assets at initial recognition depends on the financial asset's contractual cash flow characteristics and the Group's business model for managing them. The Group initially measures a financial asset at its fair value plus, in the case of a financial asset not at fair value through profit or loss, transaction costs.

In order for a financial asset to be classified and measured at amortized cost or fair value through OCI, it needs to give rise to cash flow that are 'solely payments of principal and interest (SPPI)' on the principal amount outstanding. This assessment is referred to as the SPPI test and is performed at an instrument level.

The Group's business model for managing financial assets refers to how it manages its financial assets in order to generate cash flows. The business model determines whether cash flows will result from collecting contractual cash flows, selling the financial assets, or both.

Subsequent measurement
For purposes of subsequent measurement, financial assets are classified in four categories:

- Financial assets at amortized cost (debt instruments)
- Financial assets at FVTOCI with recycling of cumulative gains and losses (debt instruments)
- Financial assets designated at FVTOCI with no recycling of cumulative gains and losses upon derecognition (equity instruments)
- Financial assets at FVTPL

The Group has no financial asset classified as financial assets at FVTOCI.

Financial assets at amortized cost (debt instruments)
This category is the most relevant to the Group. The Group measures financial assets at amortized cost if both of the following conditions are met:

- the financial asset is held within a business model with the objective to hold financial assets in order to collect contractual cash flows; and
- the contractual terms of the financial asset give rise on specified dates to cash flows that are solely payments of principal and interest on the principal amount outstanding.

Financial assets at amortized cost are subsequently measured using the effective interest (EIR) method and are subject to impairment. Gains and losses are recognized in profit or loss when the asset is derecognized, modified or impaired.

The Group's financial assets at amortized cost include cash and cash equivalents, receivables, restricted cash and refundable deposits.

Financial assets at FVTPL
Financial assets at fair value through profit or loss include financial assets held for trading, financial assets designated upon initial recognition at fair value through profit or loss, or financial assets mandatorily required to be measured at fair value. Financial assets are classified as held for trading if they are acquired for the purpose of selling or repurchasing in the near term. Derivatives, including separated embedded derivatives, are also classified as held for trading unless they are designated as effective hedging instruments. Financial assets with cash flows that are not solely payments of principal and interest are classified and measured at fair value through profit or loss, irrespective of the business model. Notwithstanding the criteria for debt instruments to be classified at amortized cost or at fair value through OCI, as described above, debt instruments may be designated at fair value through profit or loss on initial recognition if doing so eliminates, or significantly reduces, an accounting mismatch.

Financial assets at fair value through profit or loss are carried in the consolidated statement of financial position at fair value with net changes in fair value recognized in the consolidated statement of profit or loss.

This category includes derivative instruments and listed equity investments which the Group had not irrevocably elected to classify at fair value through OCI. Dividends on listed equity investments are also recognized as other income in the consolidated statement of profit or loss when the right of payment has been established.

The Group’s financial assets at FVTPL includes marketable equity securities and investment in golf club shares.

Impairment of financial assets
The Group recognizes an allowance for ECLs for all debt instruments not held at FVTPL. ECLs are based on the difference between the contractual cash flows due in accordance with the contract and all the cash flows that the Group expects to receive, discounted at an approximation of the original effective interest rate. The expected cash flows will include cash flows from the sale of collateral held or other credit enhancements that are integral to the contractual terms.

ECLs are recognized in two stages. For credit exposures for which there has not been a significant increase in credit risk since initial recognition, ECLs are provided for credit losses that result from default events that are possible within the next 12-months (a 12-month ECL). For those credit exposures for which there has been a significant increase in credit risk since initial recognition, a loss allowance is required for credit losses expected over the remaining life of the exposure, irrespective of the timing of the default (a lifetime ECL).

The Group may consider a financial asset to be in default when internal or external information indicates that the Group is unlikely to receive the outstanding contractual amounts in full before taking into account any credit enhancements held by the Group. A financial asset is written off when there is no reasonable expectation of recovering the contractual cash flows.

Financial Liabilities - Initial recognition and measurement
Financial liabilities are classified, at initial recognition, as financial liabilities at FVTPL, loans and borrowings, payables, or as derivatives designated as hedging instruments in an effective hedge, as appropriate.

All financial liabilities are recognized initially at fair value and, in the case of loans and borrowings and payables, net of directly attributable transaction costs.

The Group’s financial liabilities include accounts payable and accrued expenses, excluding statutory liabilities, loans payable and lease liabilities.

Subsequent measurement
The measurement of financial liabilities depends on their classification, as described below:

- Financial liabilities at FVTPL
- Loans and borrowings

Loans and borrowings
After initial recognition, interest-bearing loans and borrowings are subsequently measured at amortized cost using the EIR method. Gains and losses are recognized in profit or loss when the liabilities are derecognized as well as through the EIR amortization process.

Amortized cost is calculated by taking into account any discount or premium on acquisition and fees or costs that are an integral part of the EIR. The EIR amortization is included as finance costs in the statement of comprehensive income

Derecognition of Financial Assets and Financial Liabilities

Financial assets

A financial asset (or where applicable, a part of a financial asset or part of a group of similar financial assets) is derecognized when:

- the rights to receive cash flows from the asset have expired;
- the Group retains the rights to receive cash flows from the asset, but has assumed an obligation to pay them in full without material delay to a third party under a "pass-through" arrangement; or
- the Group has transferred its right to receive cash flows from the asset and either (a) has transferred substantially all the risks and rewards of the asset, or (b) has neither transferred nor retained substantially all the risks and rewards of the asset, but has transferred control of the asset.

When the Group has transferred its rights to receive cash flows from an asset and has neither transferred nor retained substantially all the risks and rewards of the asset nor transferred control of the asset, the asset is recognized to the extent of the Group's continuing involvement in the asset. Continuing involvement that takes the form of a guarantee over the transferred asset is measured at the lower of the original carrying amount of the asset and the maximum amount of consideration that the Group could be required to repay.

Financial liabilities

A financial liability is derecognized when the obligation under the liability is discharged, cancelled or has expired.

Where an existing financial liability is replaced by another from the same lender on substantially different terms, or the terms of an existing liability are substantially modified, such an exchange or modification is treated as a derecognition of the original liability and the recognition of a new liability, and the difference in the respective carrying amounts is recognized in profit or loss.

Offsetting of Financial Instruments

Financial assets and financial liabilities are set off and the net amount is reported in the consolidated statement of financial position if there is a currently enforceable legal right to offset the recognized amounts and there is an intention to settle on a net basis, or to realize the asset and settle the liability simultaneously.

Fair Value Measurement

Fair value is the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date. The fair value measurement is based on the presumption that the transaction to sell the asset or transfer the liability takes place either:

- In the principal market for the asset or liability, or
- In the absence of a principal market, in the most advantageous market for the asset or liability.

The principal or the most advantageous market must be accessible to by the Group. The fair value of an asset or a liability is measured using the assumptions that market participants would use when pricing the asset or liability, assuming that market participants act in their economic best interest.

The Group uses valuation techniques that are appropriate in the circumstances and for which sufficient data are available to measure fair value, maximizing the use of relevant observable inputs and minimizing the use of unobservable inputs.

All assets and liabilities for which fair value is measured or disclosed in the financial statements are categorized within the fair value hierarchy, described as follows, based on the lowest level input that is significant to the fair value measurement as a whole:

- Level 1 - Quoted (unadjusted) market prices in active markets for identical assets or liabilities
- Level 2 - Valuation techniques for which the lowest level input that is significant to the fair value measurement is directly or indirectly observable
- Level 3 - Valuation techniques for which the lowest level input that is significant to the fair value measurement is unobservable

For assets and liabilities that are recognized in the financial statements on a recurring basis, the Group determines whether transfers have occurred between Levels in the hierarchy by re-assessing categorization (based on the lowest level input that is significant to the fair value measurement as a whole) at the end of each reporting period.

Other Current Assets

This account comprises restricted cash, prepayments, crude oil inventory and advances to suppliers.

Restricted cash is recognized when the Group reserves a portion of its cash to pay loan interest charges and loan principal amortization and when cash is deposited in an escrow fund. Restricted cash that are expected to be realized for a period of no more than 12 months after the financial reporting period are classified as current assets, otherwise, these are classified as noncurrent assets.

Prepayments are expenses paid in advance and recorded as asset before these are utilized. The prepaid expenses are apportioned over the period covered by the payment and charged to the appropriate accounts in profit or loss when incurred. Prepayments that are expected to be realized for a period of no more than 12 months after the financial reporting period are classified as current assets, otherwise, these are classified as noncurrent assets.

Crude oil inventory is stated at NRV at the time of production. NRV is the estimated selling price less cost to sell. The estimated selling price is the market values of crude oil inventory at the time of production.

Advances to suppliers are reclassified to the proper asset or expense account and deducted from the supplier's billings as specified in the provisions of the contract.

Property, Plant and Equipment

Property, plant and equipment, except for land, are stated at cost less accumulated depletion, depreciation and amortization and any accumulated impairment losses. Land is stated at cost less any accumulated impairment losses. The initial cost of the property, plant and equipment consists of its purchase price, including any import duties, taxes and any directly attributable costs of bringing the assets to its working condition and location for its intended use and abandonment costs.

Expenditures incurred after the fixed assets have been put into operation, such as repairs and maintenance, are normally charged to the consolidated statement of comprehensive income in the period in which the costs are incurred. In situations where it can be clearly demonstrated that the expenditures have resulted in an increase in the future economic benefits expected to be obtained from the use of an item of property, plant and equipment beyond its originally assessed standard of performance, the expenditures are capitalized as an additional cost of property, plant and equipment.

Depreciation of an item of property, plant and equipment begins when it becomes available for use, i.e., when it is in the location and condition necessary for it to be capable of operating in the manner intended by management. Depreciation ceases at the earlier of the date that the item is classified as held for sale (or included in a disposal group that is classified as held for sale) in accordance with PFRS 5, *Non-current Assets Held for Sale and Discontinued Operations*, and the date the asset is derecognized.

Wells, platforms and other facilities related to oil operations are depleted using the units-of-production method computed based on estimates of proved reserves. The depletion base includes the exploration and development cost of the producing oilfields.

Land improvements consist of betterments, site preparation and site improvements that ready land for its intended use. These include excavation, non-infrastructure utility installation, driveways, sidewalks, parking lots, and fences.

Property, plant and equipment are depreciated and amortized using the straight-line method over the estimated useful lives of the assets as follows:

	Number of Years
Power plant, FCRS and production wells	25
Office condominium units	15
Land improvements	5
Transportation equipment	4
Office improvements	3
Office furniture and other equipment	2 to 3

The useful lives and depletion, depreciation and amortization methods are reviewed periodically to ensure that the period and method of depletion, depreciation and amortization are consistent with the expected pattern of economic benefits from items of property, plant and equipment.

Construction in progress represents property, plant and equipment under construction and is stated at cost. This includes the cost of construction to include materials, labor, professional fees, borrowing costs and other directly attributable costs. Construction in progress is not depreciated until such time the construction is completed.

Fully depreciated assets are retained in the accounts until they are no longer in use and no further depreciation is credited or charged to current operations.

When the assets are retired or otherwise disposed of, the cost and the related accumulated depletion, depreciation and amortization and any accumulated impairment losses are removed from the accounts and any resulting gain or loss is recognized in profit or loss.

Borrowing Costs

Borrowing costs directly attributable to the acquisition, construction or production of an asset that necessarily takes a substantial period of time to get ready for its intended use or sale are capitalized as part of the cost of the asset. All other borrowing costs are expensed in the period in which they occur. Borrowing costs consist of interest and other costs that an entity incurs in connection with the borrowing of funds.

Deferred Oil Exploration Costs

PERC follows the full cost method of accounting for exploration costs determined on the basis of each SC area. Under this method, all exploration costs relating to each SC are tentatively deferred pending determination of whether the area contains oil reserves in commercial quantities.

Deferred oil and gas exploration costs are assessed at each reporting period for possible indications of impairment. This is to confirm the continued intent to develop or otherwise extract value from the discovery. When this is no longer the case or is considered as areas permanently abandoned, the costs are written off through the consolidated statement of comprehensive income. Exploration areas are considered permanently abandoned if the related permits of the exploration have expired and/or there are no definite plans for further exploration and/or development.

The exploration costs relating to the SC where oil in commercial quantities are discovered are subsequently reclassified to “Wells, platforms and other facilities” shown under “Property and equipment” account in the consolidated statements of financial position upon substantial completion of the development stage. On the other hand, all costs relating to an abandoned SC are written off in the year the area is permanently abandoned. SCs are considered permanently abandoned if the SCs have expired and/or there are no definite plans for further exploration and/or development.

Deferred Development Costs - Geothermal included in Other Noncurrent Assets

All costs incurred in the geological and geophysical activities such as costs of topographical, geological and geophysical studies, rights of access to properties to conduct those studies, salaries and other expenses of geologists, geophysical crews, or others conducting those studies are charged to profit or loss in the year such costs are incurred.

If the results of initial geological and geophysical activities reveal the presence of geothermal resource that will require further exploration and drilling, subsequent exploration and drilling costs are accumulated and deferred under the “Other noncurrent assets” account in the consolidated statement of financial position.

These costs include the following:

- costs associated with the construction of temporary facilities;
- costs of drilling exploratory and exploratory type stratigraphic test wells, pending determination of whether the wells can produce proved reserves; and
- costs of local administration, finance, general and security services, surface facilities and other local costs in preparing for and supporting the drill activities, etc. incurred during the drilling of exploratory wells.

If tests conducted on the drilled exploratory wells reveal that these wells cannot produce proved reserves, the capitalized costs are charged to expense except when management decides to use the unproductive wells for recycling or waste disposal.

Once the project’s technical feasibility and commercial viability to produce proved reserves are established, the exploration and evaluation assets shall be reclassified to “Property, plant and equipment” and depreciated accordingly.

Deferred Development Costs - Solar Power Project included in Other Noncurrent Assets

These are costs incurred in the development of the solar plant expansion project. Costs are capitalized if the technological and economic feasibility is confirmed, usually when a project development has reached a defined milestone according to an established project management model. These costs include the following:

- costs incurred for the expansion of the solar plant project
- costs of administration, finance, general and security services and other costs attributed to the expansion of the project.

Deferred development costs of the Solar Power Project is recognized under “Other noncurrent assets” in the statement of financial position. Once the project’s technical feasibility and commercial viability has been established, development costs shall be reclassified to “Property, plant and equipment” and depreciated accordingly.

Investment in a Joint Venture (JV)
A JV is a type of joint arrangement whereby the parties that have joint control of the arrangement have rights to the net assets of the joint venture. Joint control is the contractually agreed sharing of control of an arrangement, which exists only when decisions about the relevant activities require unanimous consent of the parties sharing control. Investment in a JV is accounted for under the equity method of accounting.

Under the equity method, the investment in a JV is initially recognized at cost. The carrying amount of the investment is adjusted to recognize changes in the Group’s share of net assets of the JV since the acquisition date.

The consolidated statement of comprehensive income reflects the Group’s share of the financial performance of the joint venture. Any change in OCI of those investees is presented as part of the Group’s OCI. In addition, when there has been a change recognized directly in the equity of the JV, the Group recognizes its share of any changes, when applicable, in the consolidated statement of changes in equity. Unrealized gains and losses from transactions between the Group and the JV are eliminated to the extent of the interest of the JV.

The aggregate of the Group’s share in profit or loss of a JV is shown under “Other income (charges)” in the consolidated statement of comprehensive income and represents profit or loss after tax and non-controlling interests in the subsidiaries of the JV.

The financial statements of the JV are prepared in the same reporting period of the Group. When necessary, adjustments are made to bring the accounting policies in line with those of the Group.

After application of the equity method for the investment in a JV, the Group determines whether it is necessary to recognize an impairment loss on its investment in a JV. At each reporting date, the Group determines whether there is objective evidence that the investment in JV is impaired. If there is such evidence, the Group calculates the amount of impairment as the difference between the recoverable amount of the JV and its carrying value, then recognizes the loss in the consolidated statement of comprehensive income.

Upon loss of joint control over the JV, the Group measures and recognizes any retained investment at its fair value. Any difference between the carrying amount of the joint venture upon loss of joint control and the fair value of the retained investment and proceeds from disposal is recognized in the consolidated statement of comprehensive income.

Intangible Assets
Intangible assets acquired separately are measured on initial recognition at cost. The cost of intangible assets acquired is their fair value as at the date of acquisition. Following initial recognition, intangible assets are carried at cost less accumulated amortization and accumulated impairment losses, if any.

Intangible assets with finite lives are amortized over their useful economic lives and assessed for impairment whenever there is an indication that the intangible asset may be impaired. The amortization period and the amortization method for an intangible asset with a finite useful life are reviewed at least at the end of each reporting period. Changes in the expected useful life or the expected pattern of consumption of future economic benefits embodied in the asset is accounted for by changing the amortization period or method, as appropriate, and are treated as changes in accounting estimates.

The amortization expense on intangible assets with finite lives is recognized in the statement of comprehensive income in the expense category consistent with the function of the intangible assets.

Intangible assets are amortized using the straight-line method over the estimated useful lives of the assets as follows:

	Number of Years
Land rights	25
Production license	10
Software license	1 to 3

Gains or losses arising from derecognition of an intangible asset are measured as the difference between the net disposal proceeds and the carrying amount of the asset and are recognized in the consolidated statement of comprehensive income when the asset is derecognized.

Investment Properties

Investment properties consist of land held for capital appreciation. Land is stated at cost less any impairment in value.

The initial cost of the investment properties comprises of purchase price and any directly attributable costs of bringing the asset to its working condition. Expenditures incurred after the investment properties have been put into operation, such as repairs and maintenance, are normally charged to expense in the year when costs are incurred. In situations where it can be clearly demonstrated that the expenditures have resulted in an increase in the future economic benefits expected to be obtained from the use of an item of investment properties beyond its originally assessed standard of performance, the expenditures are capitalized as an additional cost of investment properties.

Investment property is derecognized when either it has been disposed of or when the investment property is permanently withdrawn from use and no future economic benefit is expected from its disposal. Any gains or losses on the retirement or disposal of investment properties are recognized in the consolidated statement of comprehensive income in the year of retirement or disposal.

Transfers are made to investment properties when, and only when, there is a change in use, evidenced by the end of owner-occupation, commencement of an operating lease to another party or by the end of construction or development. Transfers are made from investment properties when, and only when, there is a change in use, evidenced by commencement of owner-occupation or commencement of development with a view to sell.

Interest in Joint Operations

A joint operation is a joint arrangement whereby the parties that have joint control of the arrangement have rights to the assets, and obligations for the liabilities, relating to the arrangement.

The Group recognized in relation to its interest in a joint operation its:

- assets, including its share of any assets held jointly
- liabilities, including its share of any liabilities incurred jointly
- revenue from the sale of its share of the output arising from the joint operation
- share of the revenue from the sale of the output by the joint operation
- expenses, including its share of any expenses incurred jointly

The Group accounts for the assets it controls and the liabilities it incurs, the expenses it incurs and the share of income that it earns from the sale of crude oil by the joint operations.

The Group's participating interest in the Etame block in Gabon, West Africa and participating interests in Philippine service contracts (SCs) are classified as joint operations.

Impairment of Nonfinancial Assets

The Group assesses at each reporting date whether there is an indication that an asset (e.g., property, plant and equipment, investment properties, deferred costs, intangible assets and right-of-use assets) may be impaired. If any such indication exists, or when annual impairment testing for an asset is required, the Group estimates the asset's recoverable amount. An asset's recoverable amount is the higher of an asset's or cash-generating unit's fair value less costs to sell and its value in use and is determined for an individual asset, unless the asset does not generate cash inflows that are largely independent of those from other assets or group of assets.

Where the carrying amount of an asset exceeds its recoverable amount, the asset is considered impaired and is written down to its recoverable amount. In assessing value in use, the estimated future cash flows are discounted to their present value using a discount rate that reflects current market assessments of the time value of money and the risks specific to the asset. In determining fair value less costs to sell, an appropriate valuation model is used. These calculations are corroborated by valuation multiples, quoted share prices for publicly traded companies or other available fair value indicators.

An assessment is made at each reporting date as to whether there is any indication that previously recognized impairment losses may no longer exist or may have decreased. If such indication exists, the Group makes an estimate of recoverable amount. A previously recognized impairment loss is reversed only if there has been a change in the estimates used to determine the asset's recoverable amount since the last impairment loss was recognized. If that is the case, the carrying amount of the asset is increased to its recoverable amount. That increased amount cannot exceed the carrying amount that would have been determined, net of depletion, depreciation and amortization had no impairment loss been recognized for the asset in prior years.

Such reversal is recognized in the consolidated statement of comprehensive income unless the asset is carried at revalued amount, in which case the reversal is treated as a revaluation increase.

Capital Stock and Additional Paid-in Capital

The Group records common stock at par value and additional paid-in capital in excess of the total contributions received over the aggregate par values of the equity shares. When the Group issues more than one class of stock, a separate account is maintained for each class of stock and the number of shares issued. Incremental costs incurred directly attributable to the issuance of new shares are shown in equity as a deduction from proceeds, net of tax. When any member of the Group purchases the Group's capital stock (treasury shares), the consideration paid, including any attributable incremental costs, is deducted from equity attributable to the Group's equity holders until the shares are cancelled, reissued or disposed of. Where such shares are subsequently sold or reissued, any consideration received, net of any directly attributable incremental transaction costs and the related tax effects, is included in equity.

Deposits for Future Stock Subscriptions

Deposits for future stock subscriptions is recorded based on the redeemable amounts received and is presented under liabilities unless the following items were met for classification as part of equity:

a. the unissued authorized capital stock of the entity is insufficient to cover the amount of shares indicated in the contract;
b. there is BOD approval on the proposed increase in authorized capital stock (for which a deposit was received by the Group);
c. there is stockholders' approval of said proposed increase; and
d. the application for the approval of the proposed increase has been filed with the Securities and Exchange Commission (SEC).

Deposits represent subscription payments received from prospective investors for the Group's common shares which are yet to be issued upon approval by the SEC of the application for increase in the authorized capital stock. This will be reclassified to 'Capital stock' upon issuance of the subscribed shares.

Retained Earnings
Retained earnings represent the cumulative balance of consolidated net income, effects of changes in accounting policy and other capital adjustments, net of dividend declaration.

Unappropriated retained earnings represent the portion which can be declared as dividends to stockholders after considering the undistributed accumulated equity in a subsidiary, funds appropriated for corporate expansion projects or programs, restrictions under loan agreements and funds retained under special circumstances for probable contingencies.

Appropriated retained earnings represent the portion which has been restricted and therefore is not available for any dividend declaration.

Cumulative Translation Adjustment
Cumulative translation adjustment represents the resulting exchange differences in the remeasurement of accounts due to change in functional currency.

Equity Reserve
Equity reserve is made up of equity transactions other than equity contributions such as gain or loss resulting from increase or decrease of ownership without loss of control.

Dividend Distribution
Cash dividends on capital stock are recognized as a liability and deducted from equity when approved by the BOD.

Revenue Recognition
Revenue is recognized when the control of petroleum and electricity are transferred to the customer at an amount that reflects the consideration which the Group expects to be entitled in exchange for those goods and services. The Group has generally concluded that it is the principal in its revenue arrangements.

Electricity sales
Revenues from sale of electricity using renewable energy is consummated and recognized over time whenever the electricity generated by the Group is transmitted through the transmission line designated by the buyer, for a consideration.

Oil revenues
Revenue from crude oil is recognized at a point in time when the control of the goods has transferred from the sellers (Consortium) to the buyer at the delivery point. Revenue is measured at the fair value of the consideration received.

The revenue recognized from the sale of petroleum products pertains to the Group's share in revenue from the joint operations. The revenue sharing is accounted for in accordance with PFRS 11.

Interest income
Interest income is recognized as the interest accrues taking into account the effective yield on the asset.

Share in net income of a joint venture
Share in net income of a joint venture represents the Group's share in profit or loss of its affiliate, PWEI.

Dividend income
Dividend income is recognized according to the terms of the contract, or when the right of the payment has been established.

Miscellaneous income
Miscellaneous income is recognized when the Group's right to receive the payment is established.

Costs and Expenses
Cost of electricity sales
Costs of electricity sales pertain to direct costs in generating electricity power which includes operating and maintenance costs (O&M) for power plant and fluid collection and reinjection system (FCRS), depreciation and other costs directly attributed to producing electricity.

Oil production
Oil production are costs incurred to produce and deliver crude oil inventory, including transportation, storage and loading, among others.

Change in crude oil inventory
Change in crude oil inventory pertains to the movement of beginning and ending crude oil inventory charged as part of cost of sales.

General and administrative expenses
General and administrative expenses constitute costs of administering the business.

Costs and expenses are recognized as incurred.

Income Taxes
Current Tax
Current tax assets and liabilities for the current and prior periods are measured at the amount expected to be recovered from or paid to the taxation authorities. The tax rates and tax laws used to compute the amounts are those that are enacted or substantively enacted at the reporting date.

Deferred Tax
Deferred tax is provided using the balance sheet liability method on all temporary differences at the reporting date between the tax bases of assets and liabilities and their carrying amounts for financial reporting purposes.

Deferred tax liabilities are recognized for all taxable temporary differences except to the extent that the deferred tax liabilities arise from the: a) initial recognition of goodwill; or b) the initial recognition of an asset or liability in a transaction which is not: i) a business combination; and ii) at the time of the transaction, affects neither accounting profit nor taxable profit or loss.

Deferred tax assets are recognized for all deductible temporary differences with certain exceptions, and carryforward benefits of unused tax credits from excess minimum corporate income tax (MCIT) over RCIT and unused net operating loss carryover (NOLCO), to the extent that it is probable that sufficient taxable income will be available against which the deductible temporary differences and carryforward benefits of unused tax credits from excess MCIT and unused NOLCO can be utilized. Deferred tax assets, however, are not recognized when it arises from the: a) initial recognition of an asset or liability in a transaction that is not a business combination; and b) at the time of transaction, affects neither the accounting income nor taxable profit or loss.

The carrying amounts of deferred tax assets are reviewed at each reporting date and reduced to the extent that it is no longer probable that sufficient taxable income will be available to allow all or part of the deferred tax assets to be utilized. Unrecognized deferred tax assets are reassessed at each reporting date, and are recognized to the extent that it has become probable that future taxable income will allow the deferred tax assets to be recovered. The Group does not recognize deferred tax assets and deferred tax liabilities that will reverse during the income tax holiday (ITH).

Deferred tax assets and liabilities are measured at the tax rates that are applicable to the period when the asset is realized or the liability is settled, based on tax rates (and tax laws) that have been enacted or substantively enacted as of the reporting date.

Deferred tax relating to items recognized outside profit or loss is recognized outside profit or loss. Deferred tax items are recognized in correlation to the underlying transaction either in profit or loss or other comprehensive income.

Deferred tax assets and deferred tax liabilities are offset if a legally enforceable right exists to set off current tax assets against current tax liabilities and the deferred taxes relate to the same taxable entity and the same taxation authority.

Value-Added Tax (VAT)

Revenues, expenses and assets are recognized net of the amount of VAT, if applicable.

When VAT from sales of goods or services (output VAT) exceeds VAT passed on from purchases of goods or services (input VAT), the excess is recognized as payable in the consolidated statement of financial position. When VAT passed on from purchases of goods or services (input VAT) exceeds VAT from sales of goods and/or services (output VAT), the excess is recognized as an asset in the consolidated statement of financial position as part of "Other noncurrent assets" to the extent of the recoverable amount.

Leases - Effective January 1, 2019

Group as a lessee

The Group assesses at contract inception whether a contract is, or contains, a lease. That is, if the contract conveys the right to control the use of an identified asset for a period of time in exchange for consideration.

Right-of-use assets

The Group recognizes right-of-use assets at the commencement date of the lease. Right-of-use assets are measured at cost, less any accumulated depreciation and impairment losses, and adjusted for any remeasurement of lease liability. The cost of right-of-use assets includes the amount of lease liability recognized, and lease payments made at or before the commencement date less any lease incentives received and estimate of costs to be incurred by the lessee in dismantling and removing the underlying asset, restoring the site on which it is located or restoring the underlying asset to the condition required by the terms and conditions of the lease, unless those costs are incurred to produce inventories.

Unless the Group is reasonably certain to obtain ownership of the leased asset at the end of the lease term, the recognized right-of-use assets are depreciated on a straight-line basis over the shorter of its estimated useful life and the lease term, as follows.

	Number of Years
Office space	2
Land	18 to 25

Lease liabilities
At the commencement date of the lease, the Group recognizes lease liability measured at the present value of lease payments to be made over the lease term. The lease payments include fixed payments less any lease incentives receivable, variable lease payments that depend on an index or a rate, and amounts expected to be paid under residual value guarantees. The lease payments also include the exercise price of a purchase option reasonably certain to be exercised by the Group and payments of penalties for terminating a lease, if the lease term reflects the Group exercising the option to terminate. The variable lease payments that do not depend on an index or a rate are recognized as expense in the period on which the event or condition that triggers the payment occurs.

In calculating the present value of lease payments, the Group uses the incremental borrowing rate at the lease commencement date if the interest rate implicit in the lease is not readily determinable. After the commencement date, the amount of lease liability is increased to reflect the accretion of interest and reduced for the lease payments made. In addition, the carrying amount of lease liability is remeasured if there is a modification, a change in the lease term, a change in the in-substance fixed lease payments or a change in the assessment to purchase the underlying asset.

Short-term leases and leases of low-value assets
The Group applies the short-term lease recognition exemption to its short-term leases (i.e., those leases that have a lease term of 12 months or less from the commencement date and do not contain a purchase option). It also applies to the leases of low-value assets recognition exemption to leases that are considered of low value (i.e., below ₱250,000). Lease payments on short-term leases and leases of low-value assets are recognized as expense on a straight-line basis over the lease term.

<u>Leases - Effective Prior to January 1, 2019</u>
Group as a lessee
Leases where the lessor retains substantially all the risks and benefits of ownership of the asset are classified as operating leases. Operating lease payments are recognized as an expense in the profit and loss on a straight-line basis over the lease term. Minimum lease payments are recognized on a straight-line basis.

Group as a lessor (applicable to both years presented)
Leases where the Group does not transfer substantially all the risks and rewards of ownership of the assets are classified as operating leases. Lease payments received are recognized in profit or loss as income on a straight-line basis over the lease term.

<u>Accrued Retirement Liability</u>
The net defined benefit liability or asset is the aggregate of the present value of the defined benefit obligation at the end of the reporting period reduced by the fair value of plan assets (if any), adjusted for any effect of limiting a net defined benefit asset to the asset ceiling. The asset ceiling is the present value of any economic benefits available in the form of refunds from the plan or reductions in future contributions to the plan.

The cost of providing benefits under the defined benefit plans is actuarially determined using the projected unit credit method.

Defined benefit costs comprise the following:

- Service cost
- Net interest on the net defined benefit liability or asset
- Remeasurements of net defined benefit liability or asset

Service costs which include current service costs, past service costs and gains or losses on non-routine settlements are recognized as expense in the consolidated statement of comprehensive income. Past service costs are recognized when plan amendment or curtailment occurs. These amounts are calculated periodically by independent qualified actuaries.

Net interest on the net defined benefit liability or asset is the change during the period in the net defined benefit liability or asset that arises from the passage of time which is determined by applying the discount rate based on government bonds to the net defined benefit liability or asset. Net interest on the net defined benefit liability or asset is recognized as expense or income in the consolidated statement of comprehensive income.

Remeasurements comprising actuarial gains and losses, return on plan assets and any change in the effect of the asset ceiling (excluding net interest on defined benefit liability) are recognized immediately in OCI in the period in which they arise. Remeasurements are not reclassified to consolidated statement of comprehensive income in subsequent periods.

Plan assets are assets that are held by a long-term employee benefit fund. Plan assets are not available to the creditors of the Group nor can they be paid directly to the Group. Fair value of plan assets is based on market price information. When no market price is available, the fair value of plan assets is estimated by discounting expected future cash flows using a discount rate that reflects both the risk associated with the plan assets and the maturity or expected disposal date of those assets (or, if they have no maturity, the expected period until the settlement of the related obligations). If the fair value of the plan assets is higher than the present value of the defined benefit obligation, the measurement of the resulting defined benefit asset is limited to the present value of economic benefits available in the form of refunds from the plan or reductions in future contributions to the plan.

The Group’s right to be reimbursed of some or all of the expenditure required to settle a defined benefit obligation is recognized as a separate asset at fair value when and only when reimbursement is virtually certain.

Asset Retirement Obligation (ARO)

The Group records present value of estimated costs of legal and constructive obligations required to restore the oilfields and plant sites upon termination of its operations. The nature of these restoration activities includes dismantling and removing structures, rehabilitating settling ponds, dismantling operating facilities, closure of plant and waste sites, and restoration, reclamation and re-vegetation of affected areas. The obligation generally arises when the asset is constructed or the ground or environment at the sites are disturbed. When the liability is initially recognized, the present value of the estimated cost is capitalized as part of the carrying amount of the ARO assets (included under “Property, plant and equipment”) and ARO liability.

Liability and capitalized costs included in oil properties is equal to the present value of the Group’s proportionate share in the total decommissioning costs of the consortium on initial recognition. Additional costs or changes in decommissioning costs are recognized as additions or charges to the corresponding assets and ARO when they occur.

For closed sites or areas, changes to estimated costs are recognized immediately in the consolidated statement of comprehensive income. If the decrease in liability exceeds the carrying amount of the asset, the excess shall be recognized immediately in profit or loss.

For the oil operation, the Group depreciates ARO assets based on units-of-production method.

For the renewable energy, the Group depreciates ARO assets on a straight-line basis over the estimated useful life of the related asset or the service contract term, whichever is shorter, or written off as a result of impairment of the related asset.

The Group regularly assesses the provision for ARO and adjusts the related liability and asset.

Foreign Currency-Denominated Transactions and Translation

The consolidated financial statements are presented in PHP, which is the Parent Company's functional and presentation currency. Transactions in foreign currencies are initially recorded in the functional currency using the exchange rate at date of transaction. Monetary assets and liabilities denominated in foreign currencies are reinstated to the functional currency using the closing exchange rate at reporting date.

All exchange differences are taken to the consolidated statement of comprehensive income. Non-monetary items that are measured in terms of historical cost in foreign currency are translated using the exchange rates as at the dates of initial transactions. Non-monetary items measured at fair value in a foreign currency are translated using the exchange rates at the date when the fair value was determined.

Earnings Per Share

Basic earnings per share is computed on the basis of the weighted average number of shares outstanding during the year after giving retroactive effect to any stock split or stock dividends declared and stock rights exercised during the current year, if any.

Diluted earnings per share is computed on the basis of the weighted average number of shares outstanding during the year plus the weighted average number of ordinary shares that would be issued on the conversion of all the dilutive potential ordinary shares into ordinary shares.

PERC does not have potentially dilutive common stock.

Segment Reporting

The Group's operating businesses are organized and managed separately according to the nature of the products and services provided, with each segment representing a strategic business unit that offers different products and services and serves different markets. Financial information on business segments is presented in Note 27 to the consolidated financial statements.

Provisions and Contingencies

Provisions are recognized when the Group has a present obligation (legal or constructive) as a result of a past event, it is probable that an outflow of resources embodying economic benefits will be required to settle the obligation and a reliable estimate can be made of the amount of the obligation. If the effect of the time value of money is material, provisions are determined by discounting the expected future cash flows at a pre-tax rate that reflects current market assessments of the time value of money and, where appropriate, the risks specific to the liability.

Where discounting is used, the increase in the provision due to the passage of time is recognized as an interest expense. Provisions are reviewed at each reporting date and adjusted to reflect the current best estimate.

Contingent liabilities are not recognized in the financial statements. They are disclosed unless the possibility of an outflow of resources embodying economic benefits is remote. Contingent assets are not recognized in the financial statements but are disclosed when an inflow of economic benefits is probable. Contingent assets are assessed continually to ensure that developments are appropriately reflected in the financial statements. If it has become virtually certain that an inflow of economic benefits will arise, the asset and the related income are recognized in the consolidated financial statements.

Events After the Reporting Period
Post year-end events that provide additional information about the Group's situation at the reporting date (adjusting events) are reflected in the financial statements, if any. Post year-end events that are not adjusting events are disclosed in the notes to consolidated financial statements when material.

5. Significant Accounting Judgments, Estimates and Assumptions

The preparation of the consolidated financial statements in compliance with PFRS requires the Group to make judgments, estimates and assumptions that affect the reported amounts of assets, liabilities, income and expenses and disclosure of contingent assets and contingent liabilities. Future events may occur which will cause the assumptions used in arriving at the estimates to change. The effects of any change in judgments, estimates and assumptions are reflected in the consolidated financial statements, as they become reasonably determinable.

Judgments, estimates and assumptions are continually evaluated and are based on historical experience and other factors, including expectations of future events that are believed to be reasonable under the circumstances.

Judgments
In the process of applying the Group's accounting policies, management has made the following judgments, apart from those involving estimations, which has the most significant effect on the amounts recognized in the consolidated financial statements:

Determination of Functional Currency
The Group determines its functional currency based on economic substance of underlying circumstances relevant to each entity within the Group. The functional currency has been determined to be the PHP based on the economic substance of the business circumstances of PetroEnergy, PetroGreen, MGI, and PetroSolar.

Capitalization of Deferred Oil Exploration Costs and Deferred Development Costs
Initial capitalization of costs is based on management's judgment that technological and economic feasibility is confirmed, usually when a product development project has reached a defined milestone according to an established project management model. If the accounting policy on capitalization of development costs are not met, such costs are expensed.

As of March 31, 2020 and December 31, 2019, the carrying value of deferred oil explorations costs amounted to ₱218.36 million and ₱192.96 million, respectively, and the Group's deferred development costs amounted to ₱9.72 million and ₱6.61 million as of March 31, 2020 and December 31, 2019, respectively.

Classification of Joint Arrangements
Judgment is required to determine when the Group has joint control over an arrangement, which requires an assessment of the relevant activities and when the decisions in relation to those activities require unanimous consent. The Group assesses their rights and obligations arising from the arrangement and specifically considers:

- the structure of the joint arrangement - whether it is structured through a separate vehicle
- when the arrangement is structured through a separate vehicle, the Group also considers the rights and obligations arising from:
  - the legal form of the separate vehicle

- the terms of the contractual arrangement
- other facts and circumstances, considered on a case by case basis

This assessment often requires significant judgment. A different conclusion about both joint control and whether the arrangement is a joint operation or a joint venture, may materially impact the accounting of the investment.

The Group's investment in PetroWind is structured in a separate incorporated entity. The Group and the parties to the agreement only have the right to the net assets of the joint venture through the terms of the contractual arrangement. Accordingly, the joint arrangement is classified as a joint venture. As of March 30, 2020 and December 31, 2019, the Group's investment in a joint venture amounted to ₱1.62 billion and ₱1.56 billion, respectively.

The Group and the parties to the agreement in investment in Gabon, West Africa and investments in petroleum concessions in the Philippines have joint control over its rights to the assets and obligations for the liabilities, relating to the arrangement. Accordingly, the joint arrangements are classified as joint operations.

<u>Estimates and Assumptions</u>
The key assumptions concerning the future and other key sources of estimation uncertainty at the reporting date that have a significant risk of causing a material adjustment to the carrying amounts of assets and liabilities within the next financial year are discussed below.

Estimation of Geothermal Field Reserves
The Group performed volumetric reserve estimation to determine the reserves of the Maibarara geothermal field. As a requirement for project financing, The Group engaged at its own cost the New Zealand firm Sinclair Knight Merz (SKM) in 2011 to undertake a comprehensive third-party technical review of the Maibarara geothermal field. This review included analysis of the resource assessment performed in-house by the Group as well as a separate SKM reserve estimation and numerical modeling of the Maibarara reserves.

The Group's simulation indicated a mean (P50) proven reserves of 27.8 MW for 25 years. In contrast, SKM calculated the P50 reserves at 44 MW. At 90% probability (P90), the reserves calculated are 28 MW and 12 MW by SKM and the Group, respectively. SKM concluded that the approach taken by the Group is conservative as it limits reservoir thickness to depths where a maximum thickness of 280°C will be encountered although the measured temperature reached as high as 324°C. There is reasonable confidence that the 20 MW (gross) plant development is feasible as the P90 level appears also conservative as with the Group's approach. In addition, SKM identified indicated reserves, translating to 10 MW-26 MW in the area south of and outside the current area of development.

Also, there is a likely geothermal potential south of the proven area where two old wells were drilled and encountered high fluid temperatures (T ~ 300°C). MGI identified the southern block as a probable reserve area. SKM in 2011 suggested that the southern block can be classified as Indicated Resource based on the Australian Code as high temperatures have been intersected by the two wells. SKM estimated that the stored heat in the Southern Block has a resource potential equivalent to 12 MW for a project life of 25 years.

An updated reserves estimation using the stored-heat calculation was made in 2015 by the Group as a result of reservoir and production performance and the 2014 drilling campaign. The 2014 drilling proved that the current resource area can produce around 33.1 MW, more than enough to meet the steam requirement of the existing 20 MW power plant plus the 12 MW expansion power plant. Using Monte Carlo simulation to estimate the reserves, the proven resource area has an 80% probability of delivering between 18.1 MW to 50.9 MW over a 25-year operating period. This Monte Carlo simulation also showed that the expected mean reserve for the proven resource area is 30.4 MW for 25 years.

The Group engaged a U.S. firm Geothermal Science, Inc. (GSI) in 2015 to perform a third-party technical appraisal of the resource for the planned 12 MW expansion. This third-party review was also made as a requirement for the project financing of MGPP-2 or M2. GSI adopted the technique from the US Geological Survey Circular 790 in making the probabilistic calculation of the geothermal reserves at Maibarara. Based on this approach, GSI estimates that Maibarara has a minimum or proven reserves of 40.2 MW, P90 for 25 years plant life and Most Likely Reserve of 61.6 MW, P50 for 25 years of plant life.

The Group commenced producing power commercially last February 8, 2014. To date, the current production wells of M1 and M2 are capable of producing 33.1 MW. These production wells including the complement reinjection wells are concentrated on the proven resource area.

As of March 31, 2020 and December 31, 2019, there has been no significant change in the estimated reserves that would affect the carrying value and useful life of the Group's property, plant and equipment.

Estimation of Proved and Probable Oil Reserves
The Parent Company assesses its estimate of proved and probable reserves on an annual basis. The estimate is based on the technical assumptions and is calculated in accordance with accepted volumetric methods, specifically the probabilistic method of estimation. Probabilistic method uses known geological, engineering and economic data to generate a range of estimates and their associated probabilities.

All proved and probable reserve estimates are subject to revision, either upward or downward, based on new information, such as from development drilling and production activities or from changes in economic factors, including product prices, contract terms or development plans. Estimates of reserves for undeveloped or partially developed fields are subject to greater uncertainty over their future life than estimates of reserves for fields that are substantially developed and depleted. Estimated oil reserves are utilized in the impairment testing and the calculation of depletion expense using the unit of production method of the investments in Gabon, West Africa.

As of March 31, 2020 and December 31, 2019, the carrying value of "Wells, Platforms and other Facilities" under "Property, Plant and Equipment" amounted to ₱790.63 million and ₱783.73 million, respectively.
Estimation of Useful Lives of Property, Plant and Equipment
The Group reviews on an annual basis the estimated useful lives of property, plant and equipment based on expected asset utilization as anchored on business plans and strategies that also consider expected future technological developments and market behavior.

It is possible that future results of operations could be materially affected by changes in these estimates brought about by changes in the factors mentioned. A reduction in the estimated useful lives of property, plant and equipment would increase the recorded depletion, depreciation and amortization expense and decrease noncurrent assets.

There is no change in the estimated useful lives of property, plant and equipment as of March 30, 2020 and December 31, 2019. As of March 30, 2020 and December 31, 2019, the Group's depreciable property, plant and equipment amounted to ₱7.65 billion and ₱7.73 billion, respectively.

Impairment of Nonfinancial Assets
The Group assesses at each reporting date, whether there is an indication that an asset may be impaired. If any indication exists, or when annual impairment testing for an asset is required, the Group estimates the asset's recoverable amount. An asset's recoverable amount is the higher of an asset's or cash-generating unit's (CGU) fair value less cost of disposal and its value in use.

The recoverable amount is the higher of an asset's or cash-generating unit's (CGU) fair value less cost of disposal and its value in use. The fair value less cost of disposal is the amount obtainable from the sale of an asset in an arm's length transaction while value in use is the present value of estimated future cash flows expected to arise from the continuing use of an asset or CGU and from its disposal at the end of its useful life.

In determining the present value of estimated future cash flows expected to be generated from the continued use of an asset or CGU, the Group is required to make estimates and assumptions that can materially affect the consolidated financial statements.

Facts and circumstances that would require an impairment assessment as set forth in PFRS 6, *Exploration for and Evaluation of Mineral Resources,* are as follows:

- the period for which the Group has the right to explore in the specific area has expired or will expire in the near future, and is not expected to be renewed;
- substantive expenditure on further exploration for and evaluation of mineral resources in the specific area is neither budgeted nor planned;
- exploration for and evaluation of mineral resources in the specific area have not led to the discovery of commercially viable quantities of mineral resources and the entity has decided to discontinue such activities in the specific area; and
- sufficient data exist to indicate that, although a development in the specific area is likely to proceed, the carrying amount of the exploration and evaluation asset is unlikely to be recovered in full from successful development or by sale.

The related balances of the Group's nonfinancial assets as of December 31 follow:

	Unaudited	Audited
	31-Mar-20	31-Dec-19
Property, plant and equipment	**₱8,507,490,401**	₱8,536,605,048
Right-of-use assets	**397,524,339**	403,394,701
Deferred oil exploration costs	**218,362,772**	192,958,190
Intangible assets	**178,564,281**	181,192,511
Deferred development costs	**9,718,232**	6,605,102
Investment properties	**1,611,533**	1,611,533
	₱9,313,271,558	₱9,322,367,085

In assessing whether the asset is impaired or if reversal of prior impairment loss is required, the carrying value of the asset is compared with its recoverable amount. The recoverable amount is the higher of the asset's fair value less costs to sell and value in use. Given the nature of the Group's activities, information on the fair value of an asset is usually difficult to obtain unless negotiations with potential purchasers or similar transactions are taking place. Consequently, unless indicated otherwise, the recoverable amount used in assessing the impairment loss is value in use.

The Group did not recognize an impairment loss (reversal of impairment loss) for the period ended March 31, 2020 and December 31, 2019:

As of March 30, 2020 and December 31, 2019, the net carrying value of wells, platforms and other facilities related amounted to ₱790.63 million and ₱783.73 million, respectively, and the net carrying value of deferred oil exploration costs amounted to ₱218.36 million and ₱192.96 million as of March 31, 2020 and December 31, 2019, respectively.

Estimating the incremental borrowing rate
The Group cannot readily determine the interest rate implicit in the lease, therefore, it uses its incremental borrowing rate (IBR) to measure lease liabilities. The IBR is the rate of interest that the Group would have to pay to borrow over a similar term, and with a similar security, the funds necessary to obtain an asset of a similar value to the right-of-use asset in a similar economic environment. The IBR therefore reflects what the Group 'would have to pay', which requires estimation when no observable rates are available or when they need to be adjusted to reflect the terms and conditions of the lease. The Group estimates the IBR by reference to the PH BVAL rate, adjusted by the credit spread of the Group based on current loan agreements.

The Group's lease liabilities amounted to ₱344.68 million and ₱337.83 million as of March 31, 2020 and December 31, 2019.

Estimation of Asset Retirement Obligations
The Group has various legal obligation to decommission or dismantle its assets related to the oil production, geothermal energy project and solar power project at the end of each respective service contract. In determining the amount of provisions for restoration costs, assumptions and estimates are required in relation to the expected costs to restore sites and infrastructure when such obligation exists. The Group recognizes the present value of the obligation to dismantle and capitalizes the present value of this cost as part of the balance of the related property, plant and equipment, which are being depreciated and amortized on a straight-line basis over the useful life of the related assets (for the renewable energy) and based on units-of-production method based on estimates of proved reserves (for the oil operations).

Cost estimates expressed at current price levels at the date of the estimate are discounted using a rate ranging from 4.39% to 5.17% in 2019 to take into account the timing of payments. Each year, the provision is increased to reflect the accretion of discount and to accrue an estimate for the effects of inflation, with charges being recognized as accretion expense.

Changes in the asset retirement obligation that result from a change in the current best estimate of cash flow required to settle the obligation or a change in the discount rate are added to (or deducted from) the amount recognized as the related asset and the periodic unwinding of the discount on the liability is recognized in profit or loss as it occurs.

While the Group has made its best estimate in establishing the asset retirement obligation, because of potential changes in technology as well as safety and environmental requirements, plus the actual time scale to complete decommissioning activities, the ultimate provision requirements could either increase or decrease significantly from the Group's current estimates. The amounts and timing of recorded expenses for any period would be affected by changes in these factors and circumstances.

Asset retirement obligation as of March 31, 2020 and December 31 follows:

	Unaudited	Audited
	31-Mar-20	31-Dec-19
PetroEnergy - Oil production	**₱56,554,765**	₱55,571,203
MGI - Geothermal energy project	**24,868,832**	24,562,064
PetroSolar - Solar power project	**10,623,549**	10,487,754
	₱92,047,146	₱90,621,021

Recoverability of input VAT
The Group maintains an allowance for input VAT based on an assessment of the recoverability of these assets using the historical success rate of VAT refunded from the Bureau of Internal Revenue (BIR). A review is made by the Group on a continuing basis annually to determine the adequacy of the allowance for losses. Allowance for probable losses as of March 31, 2020 and December 31, 2019 amounted to ₱3.32 million and ₱1.66 million, respectively. The carrying value of input VAT amounted to ₱221.01 and 222.39 million as of December 31, 2019 and 2018, respectively.

Recognition of deferred tax assets
The Group reviews the carrying amounts of deferred tax assets at each reporting date and reduces them to the extent that it is no longer probable that sufficient future taxable profit will be available to allow all or part of the deferred tax assets to be utilized.

As of March 31, 2020 and December 31, 2019, the Group did not recognize deferred tax assets on certain NOLCO and MCIT as the Group believes that it may not be probable that sufficient taxable income will be available in the near foreseeable future against which the tax benefits can be realized prior to their expiration. As of December 31, 2019, gross deferred tax assets recognized amounted to ₱23.39 million.

6. Cash and Cash Equivalents

	Unaudited	Audited
	31-Mar-20	31-Dec-19
Cash on hand and in banks	**₱560,099,726**	₱625,028,938
Cash equivalents	**525,358,737**	441,669,139
	₱1,085,458,463	₱1,066,698,077

Cash in banks earn interest at the prevailing bank deposit rates. Cash equivalents are made for varying periods of up to three months depending on the immediate cash requirements of the Group and earn interest at the prevailing short-term deposit rates.

Interest income earned on cash and cash equivalents and restricted cash amounted to ₱5.66 million and ₱43.92 million as of March 31, 2020 and December 31, 2019, respectively.

7. **Receivables**

	Unaudited	Audited
	31-Mar-20	31-Dec-19
Accounts receivable from:		
Electricity sales to ACEPH (formerly PHINMA)	**₱99,470,587**	₱104,098,660
Feed-in-Tariff (FiT) revenue from National Transmission Corporation (TransCo)	**121,275,918**	94,025,965
Consortium operator	**31,056,885**	73,339,544
Electricity sales to Wholesale Electricity Spot Market (WESM)	**28,479,063**	19,534,580
PHESCO, Incorporated (PHESCO)	**14,611,943**	12,263,904
Affiliate (Note 25)	**1,961,329**	2,230,515
Others	**2,105,439**	761,992
Interest receivables	**1,993,950**	1,348,378
Other receivables	**123,466**	27,968,537
	301,078,580	335,572,075
Less allowance for impairment losses	**2,682,452**	2,682,452
	₱298,396,128	₱332,889,623

Receivables are generally on 30 days credit term.

Other receivables in 2019 includes an amount due from Rizal Commercial Banking Corporation (RCBC) for withholding tax on interest expense for the Project Loan Facility Agreement advanced by the Group. This amount was subsequently collected in 2020.

8. **Financial Assets at Fair Value Through Profit or Loss**

	Unaudited	Audited
	31-Mar-20	31-Dec-19
Marketable equity securities	**₱4,581,629**	₱7,470,096
Investment in golf club shares	**770,000**	770,000
	₱5,351,629	₱8,240,096

Net gain (loss) on fair value changes on financial assets at FVTPL included in the consolidated statements of comprehensive income amounted to (₱2.89 million) and (₱0.24 million) as of March 31, 2020 and December 31, 2019, respectively. Dividend income received from equity securities amounted to ₱0.01 million and ₱0.06 million as of March 31, 2020 and December 31, 2019, respectively.

9. **Other Current Assets**

	Unaudited	Audited
	31-Mar-20	31-Dec-19
Restricted cash	**₱796,865,456**	₱595,874,394
Supplies inventory	**97,886,522**	83,227,307
Prepaid expenses	**91,634,449**	28,199,797
Prepaid taxes	**12,475,858**	12,863,669
Crude oil inventory	**15,347,864**	11,163,550
Advances to suppliers	**4,487,129**	4,051,107
Others	**3,499,593**	3,689,963
	₱1,022,196,871	₱739,069,787

Restricted Cash
Restricted cash includes the amount of fund that the Group is required to maintain in the Debt Service Payment Account (DSPA) and Debt Service Reserve Account (DSRA) pursuant to the Omnibus Loan and Security Agreement (OLSA) of MGI and PetroSolar, respectively. Restricted cash also includes the remaining unused portion of the Stock Rights Offering Proceeds held under an escrow account amounting to ₱152.87 and ₱152.03 million as of March 31, 2020 and December 31, 2019, respectively.

Supplies Inventory
Supplies inventory refers to purchased supplies and parts that are intended to be used for operations and maintenance.

Prepaid Expenses
Prepaid expenses include various prepaid insurances and services. Prepaid expenses also include advance payment for Real Property Taxes (RPT), Stand-by Letter of Credit (SBLC) charges and operations and maintenance professional fees.

Prepaid Taxes
Prepaid taxes pertain to creditable withholding taxes and prior year's income tax credit.

Prepaid Taxes
Prepaid taxes pertain to creditable withholding taxes and prior year's income tax credit.

Crude Oil Inventory
Crude oil inventory is stated at NRV at the time of production. Change in crude oil inventory amounting to (₱4.18 million) and (₱2.37 million) is included in "Cost of Sales" in the profit or loss as of March 31, 2020 and December 31, 2019, respectively.

Advances to Suppliers
Advances to suppliers pertain to down payments to various suppliers for the purchase of materials and services for the current operations.

10. Property, Plant and Equipment

	31-Mar-2020 (Unaudited)								
	Power plants	FCRS and production wells - geothermal	Wells, platforms and other facilities	Land and land improvements	Office condominium units and improvements	Transportation equipment	Office furniture and other equipment	Construction in progress	Total
Cost									
Balances at beginning of year	**₱7,211,984,013**	**₱1,562,738,120**	**₱2,166,119,173**	**₱293,346,620**	**₱40,991,861**	**₱51,082,742**	**₱144,493,150**	**₱18,015,854**	**₱11,488,771,533**
Additions	**3,337,603**	**425,295**	**24,689,061**	**1,615,131**	–	–	**7,194,962**	**52,352,379**	**89,614,431**
Disposal	–	–	–	–	–	**(1,389,600)**	–	–	**(1,389,600)**
Reclassifications	**6,755,717**	–	–	–	–	–	–	**(6,755,717)**	–
Balances at end of year	**7,222,077,333**	**1,563,163,415**	**2,190,808,234**	**294,961,751**	**40,991,861**	**49,693,142**	**151,688,112**	**63,612,516**	**11,576,996,364**
Accumulated depletion and depreciation									
Balances at beginning of year	**1,101,299,995**	**260,867,044**	**1,223,735,862**	**26,485,766**	**40,769,200**	**36,100,378**	**104,251,114**	–	**2,793,509,359**
Depletion and depreciation	**76,135,789**	**17,001,150**	**17,783,919**	**1,349,933**	**101,251**	**2,043,423**	**4,313,613**	–	**118,729,078**
Disposals	–	–	–	–	–	**(1,389,600)**	–	–	**(1,389,600)**
Balances at end of year	**1,177,435,784**	**277,868,194**	**1,241,519,781**	**27,835,699**	**40,870,451**	**36,754,201**	**108,564,727**	–	**2,910,848,837**
Accumulated impairment losses	–	–	**158,657,126**	–	–	–	–	–	**158,657,126**
Net book values	**₱6,044,641,549**	**₱1,285,295,221**	**₱790,631,327**	**₱267,126,052**	**₱121,410**	**₱12,938,941**	**₱43,123,385**	**₱63,612,516**	**₱8,507,490,401**

	31-Dec-2019 (Audited)								
	Power plants	FCRS and production wells - geothermal	Wells, platforms and other facilities	Land and land improvements	Office condominium units and improvements	Transportation equipment	Office furniture and other equipment	Construction in progress	Total
Cost									
Balances at beginning of year	₱6,429,701,275	₱1,549,575,653	₱2,108,693,290	₱99,800,307	₱40,991,861	₱47,432,450	₱128,876,866	₱41,763,095	₱10,446,834,797
Additions	6,333,780	2,327,943	33,654,719	185,242,549	–	6,109,396	14,260,725	701,435,745	949,364,857
Transfers from deferred development costs	58,119,066	–	–	–	–	–	–	432,934	58,552,000
Transfers from deferred oil exploration costs	–	–	11,901,978	–	–	–	–	–	11,901,978
Change in ARO estimate	5,505,476	7,234,343	11,869,186	–	–	–	–	–	24,609,005
Disposal	–	–	–	–	–	(2,459,104)	(32,000)	–	(2,491,104)
Reclassifications	712,324,416	3,600,181	–	8,303,764	–		1,387,559	(725,615,920)	–
Balances at end of year	7,211,984,013	1,562,738,120	2,166,119,173	293,346,620	40,991,861	51,082,742	144,493,150	18,015,854	11,488,771,533
Accumulated depletion and depreciation									
Balances at beginning of year	811,905,265	192,997,406	1,167,890,663	20,993,615	40,725,745	28,934,921	87,305,444	–	2,350,753,059
Depletion and depreciation	289,394,730	67,869,638	55,845,199	5,492,151	43,455	7,960,457	16,947,329	–	443,552,959
Disposals	–	–	–	–	–	(795,000)	(1,659)	–	(796,659)
Balances at end of year	1,101,299,995	260,867,044	1,223,735,862	26,485,766	40,769,200	36,100,378	104,251,114	–	2,793,509,359
Accumulated impairment losses	–	–	158,657,126	–	–	–	–	–	158,657,126
Net book values	₱6,110,684,018	₱1,301,871,076	₱783,726,185	₱266,860,854	₱222,661	₱14,982,364	₱40,242,036	₱18,015,854	₱8,536,605,048

Power plants represent MGI's geothermal power plant and PetroSolar's photovoltaic plant.

The Group's construction in progress account as of March 31, 2020 and December 31, 2019 includes civil structural, piping and mechanical works for M2, interconnection of MGPP to NGCP 69kV distribution line, design and facilities study for MGI Substation related to MGPP-1&2 and remaining civil works for TSPP-2.

Change in ARO estimate and transfers from advances to contractors, deferred oil exploration costs and development costs are considered as noncash investing activities.

Depletion of wells, platforms and other facilities is presented as a separate item under cost of sales in the consolidated statements of comprehensive income.

As of March 31, 2020 and December 31, 2019, the participating interest of PERC in various service contracts areas are as follows:

Gabonese Oil Concessions	2.525%
SC 14-C2 – West Linapacan	4.137%

11. **Deferred Oil Exploration Costs**

The movements in deferred oil exploration costs follow:

	Unaudited	Audited
	31-Mar-20	31-Dec-19
Cost		
Balances at beginning of year	**₱513,400,918**	₱570,262,558
Transfers to intangible assets	–	(45,074,178)
Additions	**25,404,582**	19,606,158
Write-off / relinquishment	–	(19,491,642)
Transfers to wells and platforms	–	(11,901,978)
Balances at end of year	**538,805,500**	513,400,918
Accumulated impairment losses		
Balances at beginning of year	**320,442,728**	339,934,370
Write-off / relinquishment	–	(19,491,642)
Balances at end of year	**320,442,728**	320,442,728
	₱218,362,772	₱192,958,190

Details of deferred oil exploration costs as of March 31, 2020 and December 31, 2019 follow:

	Unaudited	Audited
	31-Mar-20	31-Dec-19
Cost		
Gabonese Oil Concessions	**₱351,704,262**	**₱326,299,680**
SC No. 6A - Octon-Malajon Block	**156,626,442**	**156,626,442**
SC. No. 75 - Offshore Northwest Palawan	**28,041,968**	**28,041,968**
SC. No. 14 - C2 (West Linapacan) - Northwest Palawan	**2,432,828**	**2,432,828**
	538,805,500	**513,400,918**
Accumulated impairment losses		

Gabonese Oil Concessions	**318,284,347**	**318,284,347**
SC. No. 14 - C2 (West Linapacan) - Northwest Palawan	**2,158,381**	**2,158,381**
	320,442,728	**320,442,728**
	₱218,362,772	**₱192,958,190**

<u>Philippine Oil Operations – Development Phase</u>

Under the SCs entered into with the DOE covering certain petroleum contract areas in various locations in the Philippines, the participating oil companies (collectively known as "Contractors") are obliged to provide, at their sole risk, the services, technology and financing necessary in the performance of their obligations under these contracts. The Contractors are also obliged to spend specified amounts indicated in the contract in direct proportion to their work obligations.

However, if the Contractors fail to comply with their work obligations, they shall pay to the government the amount they should have spent, but did not, in direct proportion to their work obligations. The participating companies have Operating Agreements among themselves which govern their rights and obligations under these contracts.

The full recovery of these deferred costs is dependent upon the discovery of oil in commercial quantities from any of the petroleum concessions and the success of future development thereof.

As of March 31, 2020 and December 31, 2019, the participating interests of the Group in various Petroleum SC areas are as follows:

	2019	2018
SC 6A – Octon-Malajon Block	16.667%	16.667%
SC 75 – Offshore Northwest Palawan	15.000%	15.000%
SC 51 – East Visayas	–	20.050%

12. **Investment in a Joint Venture**

The investment in a joint venture represents PetroGreen's 40% interest in PetroWind, a company incorporated in the Philippines. The primary purpose of PetroWind is to carry on the general business of generating, transmitting and/or distributing power derived from renewable energy sources.

The movements in the carrying value as of March 31, 2020 and December 31, 2019 follow:

	Unaudited	Audited
	31-Mar-20	31-Dec-19
Balance at beginning of year	**₱1,563,732,303**	**₱1,526,687,692**
Share in net income of a joint venture	**52,447,282**	**97,552,085**
Dividends received	**–**	**(60,000,000)**
Share in other comprehensive loss	**–**	**(507,474)**
Balance at end of year	**₱1,616,179,585**	**₱1,563,732,303**

The carrying value of the investment in PetroWind is equivalent to the Group's 40% share in PetroWind's equity, plus the fair value adjustment of ₱764.49 million recognized when the Group lost control over PetroWind in 2014.

13. **Leases**

The Group entered into lease contracts for office spaces and land used as geothermal field and photovoltaic (PV) solar power facility. The office space lease agreements are for a period of 2 years and are renewable by mutual agreement of both parties.

The LLA with NPC and PSALM for the geothermal field in Sto. Tomas, Batangas has a lease term of twenty-five (25) years, extendable for another 25 years upon mutual agreement of both parties.

The two lease agreements with Luisita Industrial Park Corporation (LIPCO) for land used for the photovoltaic solar power facility in Tarlac is for a period of 25 years, renewable by mutual agreement of both parties, generally under the same terms and conditions, with escalation clause of 3% every 2 years.

The Group's obligations under these leases are secured by the lessor's title to the leased assets. The Group is restricted from assigning and subleasing the leased assets.

The Group applies the 'short-term lease' and 'lease of low-value assets' recognition exemptions for all other leases, including leases of vehicles and parking slots.

The rollforward analysis of right-of-use assets as of March 31, 2020 and December 31, 2019 follows:

	31-Mar-2020 (Unaudited)		
	Land	**Office Spaces**	**Total**
Cost upon adoption of standard	**₱420,180,224**	**₱6,563,033**	**₱426,743,257**
Additions:	**–**	**–**	**–**
Total Costs	**₱420,180,224**	**₱6,563,033**	**₱426,743,257**
Accumulated depreciation	**26,224,937**	**2,993,981**	**29,218,918**
Net Book Value	**₱393,955,287**	**₱3,569,052**	**₱397,524,339**

	31-Dec-2019 (Audited)		
	Land	Office Spaces	Total
Cost upon adoption of standard (Note 3)	₱420,180,224	₱6,563,033	₱426,743,257
Depreciation (Notes 21 and 23)	20,053,149	3,295,407	23,348,556
Net Book Value	₱400,127,075	₱3,267,626	₱403,394,701

The depreciation of the right-of-use of the lands in Tarlac and Batangas are presented as part of "Cost of electricity sales" while the depreciation of the right-of-use of office spaces are presented as part of "General and administrative expenses" in the statement of comprehensive income.

No lease liability was recognized for leases of land that have been prepaid. The rollforward analysis of lease liabilities as of March 31, 2020 and December 31, 2019 follows:

	Unaudited	Audited
	31-Mar-20	31-Dec-19
Beginning balance	**₱337,829,549**	₱342,107,039
Interest expense	**7,759,437**	32,060,888
Payments	**(911,070)**	(36,338,378)
Ending balance	**₱344,677,916**	₱337,829,549
Less current portion	**25,823,001**	18,974,634
Noncurrent portion	**₱318,854,915**	₱318,854,915

14. **Investment Properties**

As of March 31, 2020 and December 31, 2019, this account consists of land and parking lot space (located in Tektite) with cost amounting to ₱1.61 million.

The fair value of the investment properties of the Group is between ₱1.40 million to ₱1.70 million as of March 31, 2020 and December 31, 2019. The Group determined the fair values of the Group's investment properties on the basis of recent sales of similar properties in the same areas as the investment properties and taking into account the economic conditions prevailing at the time the valuations were made.

As of March 31, 2020 and December 31, 2019, the fair value of the investment properties is classified under the Level 2 category.

Except for insignificant amounts of real property taxes on the investment properties, no other expenses were incurred, and no income was earned in relation to the investment properties.

15. **Other Noncurrent Assets**

	Unaudited	Audited
	31-Mar-20	31-Dec-19
Input VAT	**₱219,359,991**	₱222,338,316
Intangible assets	**178,564,281**	181,192,511
Restricted cash	**47,640,674**	47,360,677
Advances to contractors	**21,224,612**	31,201,988
Deferred development costs	**9,718,232**	6,605,102
Others	**19,399,772**	19,358,113
	495,907,562	508,056,707
Less allowance for probable losses	**(1,657,261)**	(1,657,261)
	₱494,250,301	₱506,399,446

Input VAT
Input VAT represents VAT passed on from purchases of goods and services that can be claimed against any future liability to the Bureau of Internal Revenue (BIR) for output VAT from sale of goods and services.

Input VAT also includes outstanding input VAT claims that were applied by MGI for refund with the BIR. As of March 31, 2020 and December 31, 2019, the outstanding input VAT claims which are still pending with the CTA and SC amounted to ₱126.96 million.

Intangible assets
Intangible assets pertain to land rights, which refers to grant of easement of right of way entered by PetroSolar to construct, operate, maintain, repair, replace and remove poles, wire, cables, apparatus, and equipment and such other apparatus and structures needed for the transmission line. This also includes software licenses of the Group.

Restricted cash
The restricted cash pertains to the Parent Company's share in the escrow fund for the abandonment of the Etame Marine Permit amounting to ₱44.42 million (or $870,200) and ₱44.16 million (or $870,200) as of March 31, 2020 and December 31, 2019, respectively. The Parent Company made an additional contribution for its share in the abandonment of the Etame Marine Permit to the escrow fund amounting to nil as of March 31, 2020 and December 31, 2019.

This also includes escrow to secure payment and discharge of the Parent Company's obligations and liabilities under the FPSO contract amounting to ₱3.22 million and ₱3.20 million as of March 31, 2020 and December 31, 2019, respectively. The amount for the share in escrow of the Parent Company's obligation for the FPSO was deducted from the Parent Company's share on lifting proceeds during the first lifting made by Etame in November 2002 and will be paid back to the Parent Company at the end of the contract in 2022.

Advances to contractors
Advances to contractors pertain to the downpayments to various contractors for the purchase of materials and equipment.

Deferred development costs
These pertains to costs incurred in the exploration, development, production and expansion of renewable energy projects.

Others
Other noncurrent assets pertain to noncurrent portion of prepaid insurance and security deposits.

16. Accounts Payable and Accrued Expenses

	Unaudited	Audited
	31-Mar-20	31-Dec-19
Accrued expenses	**₱244,609,532**	₱159,432,539
Accounts payable	**154,715,944**	128,510,917
Withholding taxes and other tax payables	**9,282,424**	40,038,233
Dividends payable	**10,657,014**	10,657,014
Due to NRDC	**2,269,737**	2,269,737
Provision for probable loss	–	1,051,178
Others	**3,640,782**	1,756,456
	₱425,175,433	₱343,716,074

Details of accrued expenses follows:

	Unaudited 31-Mar-20	Audited 31-Dec-19
Utilities	**₱84,007,246**	₱68,310,651
Interest (Note 17)	**130,371,560**	54,130,576
Sick/vacation leaves	**11,803,646**	15,807,702
Professional fees	**3,949,133**	8,792,995
Profit share	**7,087,207**	7,087,209
Due to related party	**–**	145,600
Others	**7,390,740**	5,157,806
	₱244,609,532	₱159,432,539

Accounts payable consists of payable to suppliers and contractors that are currently involved in the development, construction and operations of energy projects. The Group's accounts payable and accrued expenses are due within one year.

Dividends payable pertain to unclaimed checks as of March 31, 2020 and December 31, 2019.

17. Loans Payable

The Group's loans payable as of March 31, 2020 and December 31, 2019 follow:

	Unaudited 31-Mar-20	Audited 31-Dec-19
Principal, balance at beginning of year	**₱5,360,170,129**	**₱5,752,190,910**
Add availments during the year	**–**	**548,500,000**
Less principal payments during the year	**–**	**940,520,781**
Principal, balance at end of year	**5,360,170,129**	**5,360,170,129**
Less unamortized deferred financing cost	**(54,770,457)**	**(60,331,266)**
	5,305,399,672	**5,299,838,863**
Less current portion - net of unamortized deferred financing cost	**(1,185,253,028)**	**(1,197,555,427)**
Noncurrent portion	**₱4,120,146,644**	**₱4,102,283,436**

PetroEnergy's short-term loans payable
PetroEnergy entered into unsecured loan agreements specifically to finance its Etame Expansion Project and investments in Renewable Energy Projects.

On April 27, 2015, PetroEnergy entered into an Omnibus Credit Line Agreement (OCLA) with the Development Bank of the Philippines (DBP) which provides a credit facility in the principal amount not exceeding ₱420.00 million. On June 29, 2016 the credit facility was increased to ₱500.00 million.

Loans payable as of December 31, 2019 pertains to:

- loan from DBP amounting to ₱78.50 million with interest rate of 6.0% and maturity on May 19, 2020; and
- loan from DBP amounting to ₱190.00 million with interest rate of 6.0% and maturity on April 27, 2020;

Interest expense related to these loans amounted to ₱4.28 million and ₱20.36 million as of March 31, 2020 and December 31, 2019, respectively. Accrued interest payable amounted to ₱2.26 million and ₱2.22 million as of March 31, 2020 and December 31, 2019, respectively (see Note 16).

PetroGreen's short-term and long-term loans payable
On November 17, 2015, PetroGreen entered into a 5-year credit line facility with Chinabank amounting to ₱500.00 million, subject to repricing on the third anniversary. On the same date, ₱400.00 million out of the total loan facility were drawn by PetroGreen. The loan has an annual interest rate of 5.24% and has no collateral.

The loan is payable every 17th of May and November beginning on May 2017. The agreement further specifies that 96.50% of the aggregate principal amount shall b e paid on the due date of the loan.

On November 29, 2016, PetroGreen has drawn an additional ₱30.00 million out of the total loan facility. The additional loan from Chinabank has an annual interest rate of 5.33%.

In 2019, PetroGreen negotiated for the reduction in the interest rates of the aforementioned loans from 8.28% and 8.47% to 7.14% for both loans. The reduced interest rate was approved by the bank and made effective starting September 19, 2019. This amendment did not result to an extinguishment of the loan.

Interest expense related to these loans amounted to ₱8.19 million and ₱34.84 million as of March 31, 2020 and December 31, 2019, respectively. Accrued interest payable amounted to ₱10.06 million and ₱3.28 million as of March 31, 2020 and December 31, 2019, respectively (see Note 16).

MGI's long-term loans payable
Project Loan Facility Agreements with RCBC
On May 19, 2016, MGI, together with PHINMA and PNOC RC executed the Project Loan Facility Agreement with RCBC for a ₱1,400.00 million project loan to finance the design, development and construction of MGPP-2 or M2.

On September 5, 2016, MGI, together with PHINMA and PNOC RC executed another Project Loan Facility Agreement with RCBC for a ₱2,100.00 million project loan to finance the design, development and construction of MGPP-1 or M1. This was done to consolidate the outstanding principal of the term loan under the 2011 OLSA with RCBC and BPI, incidental costs, general corporate expenditures and working capital requirement.

a. MGPP-1 or M1 new Loan
   The new MGPP-1 or M1 loan amounting to ₱2,100.00 million has a term of ten (10) years from the drawdown date of October 10, 2016. Interest and principal are payable semi-annually. Interest payment started on October 12, 2016, while the twenty (20) semi-annual principal payments started on April 12, 2017.

   Interest rate is fixed for the first five (5) years from drawdown date, based on the sum of the prevailing 5-year fixed benchmark rate on the pricing date and the margin of 1.75% (the "Initial Interest Rate"). On the repricing date, the interest for the remaining five (5)-year term of the loan will be the higher of (i) the sum of then prevailing 5-year fixed benchmark rate plus the margin of 1.75%, or (ii) the initial interest rate.

   As of March 31, 2020 and December 31, 2019, the outstanding balance of this loan amounted to ₱1,623.70 and ₱1,622.24 million, respectively. Interest expense recognized from the new M1 Loan amounted to ₱24.66 and ₱105.45 million as of March 31, 2020 and December 31, 2019, respectively.

b. MGPP-2 or M2 Expansion Loan
The MGPP-2 or M2 Expansion Loan amounting to ₱1,400.00 million has a term of twelve (12) years including thirty-six (36) months grace period from initial drawdown date of June 2, 2016. Interest and principal are payable semi-annually. Interest payment started on October 12, 2016, while the eighteen (18) semi-annual principal payments started on October 12, 2019.

Interest rate is fixed for the first seven (7) years from the initial drawdown date based on the sum of the prevailing 7-year fixed benchmark rate on the pricing date and the applicable margin of (1) 2.25% per annum prior to commercial operations date, or (ii) 1.75% per annum from and after the Commercial Operations Date (the "Initial Interest Rate"). For subsequent drawdowns, interest rate will be the three (3) –day simple average interpolated rate based on the remaining tenor and computed using the straight-line method. On the repricing date, the interest for the remaining five (5)-year term of the loan will be the higher of (i) the sum of the then prevailing 5-Year fixed benchmark rate plus the applicable margin, or (ii) the weighted average interest rate during the first seven (7) years of the loan.

As of March 31, 2020 and December 31, 2019, the outstanding balance of this loan amounted to ₱1,324.43 and ₱1,322.30 million, respectively. Interest recorded as expense amounted to ₱23.89 and ₱92.54 million as of March 31, 2020 and December 31, 2019, respectively.

Accrued interest payable of MGI's loans amounted to ₱84.45 and ₱39.49 million as of March 31, 2020 and December 31, 2019 and 2018, respectively.

The loan covenants covering the outstanding debt of MGI include, among others, the following conditions: maintenance at all times of Debt-to-Equity (DE) Ratio of not greater than 70:30, Default Debt Service Coverage Ratio (DSCR) of at least 1.10x both until full payment of the Loans, and Dividend DSCR of at least 1.20x. MGI is also required to transfer in the DSPA equivalent to one-sixth (1/6) of the amount sufficient to pay for the forthcoming debt service scheduled in April and October of every year until the loan is fully paid off. As of March 31, 2020 and December 31, 2019, MGI has been compliant with the above conditions.

PetroSolar's long-term loans payable
On November 12, 2015, the PetroSolar, together with PetroGreen and EEIPC, as third party mortgagors and pledgors, entered into a ₱2,600.00 million OLSA with PNB and DBP specifically to partially finance the design, development, procurement, construction, operation and maintenance of its TSPP.

PetroSolar shall fully pay the loan for the pro-rata account of each lender within twelve (12) years from and after the date of the initial drawdown. Interest and principal are payable semi-annually. Interest payment started on May 27, 2016, while the twenty-two (22) semi-annual principal payments started on November 27, 2016.

The rate of the interest applicable to the facility or the relevant part thereof for each interest period shall be fixed for the first seven periods (7) from the initial drawdown date (the Initial Interest Rate). Prior to the FIT entitlement and collection of FIT revenues of the borrower, the rate shall be the higher of: (i) the aggregate of the seven (7) year PDST-R2 and the initial credit spread, or (ii) the minimum interest rate. Upon FIT entitlement of at least 40MW and collection of FIT revenues by the borrower equivalent to an aggregate of at least four hundred seventy three million pesos (₱473,000,000) within a period not exceeding twelve (12) consecutive months, the rate shall be the higher of (i) the weighted average interest rate in previous drawdowns less the step down credit spread, or (ii) minimum interest rate, and which interest rate shall be applied beginning the following month immediately succeeding the month wherein the aforesaid FIT entitlement and FIT revenue collection thresholds were satisfied. PetroSolar met the criteria for FIT entitlement and aggregate collection of at least ₱473.00 million within 12 months which resulted to a lower interest rate effective July 2017.

The loan covenants covering the outstanding debt of PetroSolar include, among others, maintenance of debt-to-equity ratio of 75:25 and establishment of DSPA required balance. As of March 31, 2020 and December 31, 2019, PetroSolar is in compliance with the said loan covenants.

As of March 31, 2020 and December 31, 2019, the outstanding balance of this loan amounted to ₱1,669.52 and ₱ 1,670.35 million, respectively. Interest expense recognized amounted to ₱30.66 million and ₱127.58 million as of March 31, 2020 and December 31, 2019, respectively. Accrued interest payable amounted to ₱33.61 million and ₱9.14 million as of March 31, 2020 and December 31, 2019, respectively.

PetroSolar mortgaged all of its property and equipment related to TSPP-1 as collateral in connection with the loan.

Deferred financing costs
Deferred financing costs are incidental costs incurred in obtaining the loan which includes documentary stamp tax, transfer tax, chattel mortgage, real estate mortgage, professional fees, arranger's fee and other costs directly attributable in obtaining the loan. The balance of unamortized deferred financing costs is presented as a deduction from the loans payable account and is amortized over the life of the loan using the effective interest rate method.

18. Asset Retirement Obligation

The Group has recognized its share in the abandonment costs associated with the Etame, Avouma and Ebouri oilfields located in Gabon, West Africa, geothermal field located in Sto. Tomas Batangas, and photovoltaic (PV) solar power facility in Tarlac.
Movements in this account follows:

	Unaudited	Audited
	31-Mar-20	31-Dec-19
Balance at beginning of year	**₱90,621,021**	₱63,156,679
Change in estimates (Note 10)	–	24,609,005
Accretion expense	**1,165,830**	4,505,825
Foreign exchange adjustment	**260,295**	(1,650,488)
Balance at end of year	**₱92,047,146**	₱90,621,021

19. Equity

Under the existing laws of the Republic of the Philippines, at least 60% of the Parent Company's issued capital stock should be owned by citizens of the Philippines for the Parent Company to own and hold any mining, petroleum or renewable energy contract area. As of March 31, 2020, the total issued and subscribed capital stock of the Parent Company is 99.88% Filipino and 0.12% non-Filipino as compared to 99.88% Filipino and 0.12% non-Filipino as of December 31, 2019.

As of March 31, 2020 and December 31, 2019, paid-up capital consists of:

Capital stock - ₱1 par value	
Authorized - 700,000,000 shares	
Issued and outstanding	**₱568,711,842**
Additional paid-in capital	**2,156,679,049**
	₱2,725,390,891

The Group's track record of capital stock follows:

	Number of shares registered	**Issue/offer price**	**Date of SEC approval**	**Number of holders as of year-end**
Listing by way of introduction - August 11, 2004	84,253,606	₱3/share	August 4, 2004	
Add (deduct):				
25% stock dividend	21,063,402	₱1/share	September 6, 2005	
30% stock dividend	31,595,102	₱1/share	September 8, 2006	
1:1 stock rights offering	136,912,110	₱5/share	May 26, 2010	
December 31, 2010	273,824,220			2,149
Deduct: Movement	–			(26)
December 31, 2011	273,824,220			2,123
Deduct: Movement	–			(10)
December 31, 2012	273,824,220			2,113
Deduct: Movement	–			(41)
December 31, 2013	273,824,220			2,072
Deduct: Movement				(29)
December 31, 2014	273,824,220			2,043
Add (Deduct):				
2:1 stock rights offering	136,912,110	₱4.38/share	June 3, 2015	(15)
December 31, 2015	410,736,330			2,028
Deduct: Movement	–			(1)
December 31, 2016	410,736,330			2,027
Deduct: Movement	–			(15)
December 31, 2017	410,736,330			2,012
Add (Deduct):				
1.2:6 stock rights offering	157,975,512	₱4.8/share	January 8, 2018	(8)
December 31,2018	568,711,842			2004
Deduct: Movement	–			(5)
December 31,2019	568,711,842			1,999
Movement	–			–
March 31, 2020	568,711,842			1,999

On July 26, 2017, at the BOD meeting, the Parent Company was authorized to raise approximately one billion pesos (₱1,000,000,000) in capital, by offering and issuing to all eligible stockholders as of record date, the rights to subscribe up to all of the existing unissued common shares of the Parent Company (" Stock Rights Offer").

On September 29, 2017, the Parent Company filed its application for the listing and trading of rights shares with the PSE. On December 13, 2017, the PSE approved the application to list the Rights Shares.

The rights offer entitled eligible stockholders as of record date of January 12, 2018 to subscribe to one rights share for every 2.6 shares held at an offer price of ₱4.80 per share.

The rights offer was undertaken on January 22 to 26, 2018. Following the close of the offer period, the Parent Company successfully completed the stock rights offer for 157,975,512 common shares with gross proceeds of ₱758.28 million and was subsequently listed on the PSE on February 2, 2018.

The proceeds from the stock rights offer were used for the development and expansion plans of the Group's renewable energy projects, general corporate requirements, and payments of loans and the related interest.

Appropriated Retained Earnings
On January 15, 2008, the BOD approved the appropriation of ₱20.00 million for the development of the Ebouri oilfield in Gabon, West Africa in addition to the ₱30.00 million originally appropriated amount.

On July 24, 2008, the BOD approved additional appropriation of retained earnings amounting to ₱44.14 million for the development of the Ebouri oil field in Gabon, West Africa.

On February 19, 2013, the BOD approved additional appropriated retained earnings amounting to ₱44.45 million to cover for the Group's share in the cost of the committed wells in the Etame oilfield in Gabon, West Africa.

On July 12, 2018, the BOD approved the reversal of the appropriation amounting to ₱138.59 million to unappropriated retained earnings since the above appropriations have been served.

Dividends
On July 26, 2018, the Parent Company declared cash dividends amounting to ₱28,435,592 or ₱0.05 per share to stockholders of record as of August 24, 2018 and was paid on September 20, 2018 (nil in 2019 and 2017).

Cumulative Translation Adjustment
In 2018, because of the change in business circumstances of the Parent Company, management changed its functional currency from United States Dollar (USD) to PHP effective January 31, 2018. All resulting exchange differences in the remeasurement of USD balances to PHP balances were recognized as 'Cumulative Translation Adjustment'.

Equity Reserve
On June 9, 2015, PetroEnergy sold its 10% interest in PetroGreen to EEIPC, bringing its ownership in PetroGreen from 100% to 90%. The transaction was accounted as an equity transaction since there was no change in control.

The effect of change in the ownership interest in PetroGreen on the equity attributable to owners of PetroEnergy is summarized as follows:

Consideration received from non-controlling interest	₱206,000,000
Carrying amount of non-controlling interest sold, net of related cost	(125,950,762)
Excess of consideration received recognized in equity	₱80,049,238

Capital Management
The primary objective of the Group's capital management is to ensure that it maintains a strong credit rating and healthy capital ratios in order to support its business and maximize shareholders' value.

The Group manages its capital structure and makes adjustments to it, in light of changes in economic conditions. To maintain or adjust the capital structure, the Group may increase its debt from creditors, adjust the dividend payment to shareholders or issue new shares.

As of March 31, 2020 and December 31, 2019, the Group monitors capital using a debt-to-equity ratio, which is total liabilities divided by total equity.

The Group's sources of capital as of March 31, 2020 and December 31 are as follows:

	Unaudited	Audited
	31-Mar-20	31-Dec-19
Loans payable	**₱5,305,399,673**	₱5,299,838,863
Capital stock	**568,711,842**	568,711,842
Additional paid-in capital	**2,156,679,049**	2,156,679,049
Retained earnings	**2,143,695,904**	2,017,651,639
Equity reserve	**80,049,238**	80,049,238
	₱10,254,535,706	₱10,122,930,631

The table below demonstrates the debt-to-equity ratio of the Group as of March 31, 2020 and December 31, 2019:

	Unaudited	Audited
	31-Mar-20	31-Dec-19
Total liabilities	**₱6,193,775,194**	₱6,098,412,780
Total equity	**7,465,649,943**	7,265,810,016
Debt-to-equity ratio	**0.83:1**	0.84:1

Based on the Group's assessment, the capital management objectives were met as of March 31, 2020 and December 31, 2019.

20. Related Party Transactions

Parties are considered to be related if one party has the ability, directly or indirectly, to control the other party or exercise significant influence over the other party in making financial and operating decisions. Parties are considered to be related if one party has the ability, directly or indirectly, to control the other party in making financial and operating decisions or the parties are subject to common control or common significant influence (referred to as 'Affiliates'). Related parties may be individuals or corporate entities.

Significant transactions with related parties are as follows:

	Transactions for the period		**Outstanding Balance Receivables (Payables)**		**Terms and**
Related Party/Nature	**31-Mar-2020**	31-Dec-2019	**31-Mar-2020**	31-Dec-2019	**Conditions**
Investor					
House of Investments, Inc					
Internal audit services	**₱218,400**	₱739,200	**(₱145,600)**	(₱145,600)	Note a
Joint Venture					
PetroWind					
Rental income	**214,286**	857,143	–	–	Note b
Timewriting fee	**2,294,605**	8,517,125	–	1,411,611	Note c
Management income	**500,000**	2,000,000	–	–	Note c
Advances	**4,705,070**	8,984,672	**1,345,329**	202,904	
			1,345,329	1,614,515	
Affiliate					
AC Energy Philippines, Inc. (formerly PHINMA)					
Electricity sales	**260,261,170**	1,139,162,750	**99,470,587**	104,098,660	Note d

Related Party/Nature	Transactions for the Years Ended December 31 31-Mar-2020	31-Dec-2019	Outstanding Balance Receivables (Payables) 31-Mar-2020	31-Dec-2019	Terms and Conditions
Affiliate					
EEI Power Corporation					
Other income	**₱–**	**₱550,000**	**₱616,000**	**₱616,000**	Note e
Loans payable	–	**123,200,000**	–	–	Note f
Interest capitalized	–	**1,694,000**	–	–	Note f
Interest expense	–	**1,148,155**	–	–	Note f
			₱616,000	**₱106,183,575**	

a. PetroEnergy has an Internal Audit Engagement arrangement with House of Investments, Inc. (HI). The internal audit services amounted ₱218,400 and ₱739,200 as of March 31, 2020 and December 31, 2019, respectively. These are non-interest bearing and are due and demandable.

b. PetroGreen charges rental fees to PetroWind amounting to ₱71,429 every month. These are non-interest bearing and payable when due and demandable.

c. Timewriting fees are charged by PetroGreen for accounting, legal management and other support services rendered to PetroWind. Management income refers to charges by PetroEnergy to PetroWind. These are non-interest bearing and are due and demandable.

d. Electricity sales to ACEPH (formerly PHINMA) is pursuant to the Electricity Supply Agreement (see Note 33). This is due and payable on the last business day of the month succeeding the billing period and non-interest bearing if paid within the due date.

e. In 2019, PetroGreen charged EEI Power Corporation (EEIPC) amounting to ₱550,000 plus VAT representing charges for the equity valuation study.

f. In 2019, EEIPC granted a loan to PetroSolar amounting to ₱123.20 million with an interest rate of 5.50% per annum. The loan was converted into equity for subscription of unissued authorized capital stock in July 2019 increasing non-controlling interest.

On November 12, 2015, MGI entered into a ₱2.6 billion OLSA with PNB and DBP. EEIPC is a third-party mortgagor and pledgor in the OSLA.

21. Financial Instruments

The Group's principal financial instruments include cash and cash equivalents, financial assets at FVTPL, receivables, restricted cash, loans payable, accounts payable, accrued expenses and dividends payable. The main purpose of these financial instruments is to fund the Group's working capital requirements.

Categories and Fair Values of Financial Instruments

As of March 31, 2020 and December 31, 2019, the carrying amounts of the Group's financial assets and financial liabilities approximate their fair values except for loans payable and lease liabilities.

The methods and assumptions used by the Group in estimating the fair value of financial instruments are:

Financial instruments	**Considerations**
Cash and cash equivalents, restricted cash, receivables, accounts payable and accrued expenses, and short-term loans payable	Due to the short-term nature of the instruments, carrying amounts approximate fair values as at the reporting date.
Equity securities	Fair values are based on published quoted prices.
Golf club shares	Fair values are based on quoted market prices at reporting date.
Long-term loans payable	Fair value is based on the discounted value of expected future cash flows using the applicable interest rate for similar type of instruments. The fair value is derived using the prevailing PH BVAL rate.
Lease liabilities	Estimated fair value is based on the discounted value of future cash flows using the prevailing PH BVAL rate.

The fair value is based on the source of valuation as outlined below:

- quoted prices in active markets for identical assets or liabilities (Level 1);
- those involving inputs other than quoted prices included in Level 1 that are observable for the asset or liability, either directly or indirectly (Level 2); and
- those with inputs for the asset or liability that are not based on observable market data (unobservable inputs) (Level 3).

In March 31, 2020 and December 31, 2019, there were no transfers of financial instruments among all levels.

Financial Risk Management Objectives and Policies

The Group manages and maintains its own portfolio of financial instruments in order to fund its own operations and capital expenditures. Inherent in using these financial instruments are the following risks on liquidity, market and credit.

Financial Risks

The main financial risks arising from the Group's financial instruments are liquidity risk, market risk and credit risk.

Liquidity Risk

Liquidity risk is the risk that the Group is unable to meet its financial obligations when due. The Group monitors its cash flow position and overall liquidity position in assessing its exposure to liquidity risk. The Group maintains a level of cash and cash equivalents deemed sufficient to finance its operations and to mitigate the effects of fluctuation in cash flows. To cover its short-term and long-term funding requirements, the Group intends to use internally generated funds as well as to obtain loan from financial institutions. As of March 31, 2020 and December 31, 2019, the Group has existing credit line facilities from which they can draw funds from.

The tables below summarize the maturity profile of the Group's financial assets and financial liabilities as of March 31, 2020 and December 31, 2019 based on contractual payments:

	31-Mar-2020 (Unaudited)			
	On demand	1 year or less	More than 1 year	Total
Financial Assets				
Financial assets at FVTPL	**₱5,351,629**	**₱–**	**₱–**	**₱5,351,629**
Loans and receivables:				
Cash and cash equivalents	**1,085,458,463**	**–**	**–**	**1,085,458,463**
Accounts receivable	**16,717,382**	**277,455,891**	**2,105,439**	**296,278,712**
Interest receivable	**–**	**1,993,950**	**–**	**1,993,950**
Other receivables	**–**	**123,466**	**–**	**123,466**
Restricted cash	**152,873,969**	**643,991,487**	**47,640,674**	**844,506,130**
	1,260,401,443	**923,564,794**	**49,746,113**	**2,233,712,350**
Financial Liabilities				
Loans payable	**–**	**1,185,253,029**	**4,120,146,644**	**5,305,399,673**
Lease liabilities	**–**	**25,823,001**	**318,854,915**	**344,677,916**
Accounts payable and accrued expenses	**125,544,477**	**299,630,956**	**–**	**425,175,433**
	125,544,477	**1,510,706,986**	**4,439,001,559**	**6,075,253,022**
Net financial assets (liabilities)	**₱1,134,856,966**	**(₱587,142,192)**	**(₱4,389,255,446)**	**(₱3,841,540,672)**

	31-Dec-2019 (Audited)			
	On demand	1 year or less	More than 1 year	Total
Financial Assets				
Financial assets at FVTPL	₱8,240,096	₱–	₱–	₱8,240,096
Loans and receivables:				
Cash and cash equivalents	1,066,698,077	–	–	1,066,698,077
Accounts receivable	70,683,906	232,525,972	362,830	303,572,708
Interest receivable	253,077	1,095,301	–	1,348,378
Other receivables	–	27,968,537	–	27,968,537
Restricted cash	152,036,942	443,837,452	47,360,677	643,235,071
	1,297,912,098	705,427,262	47,723,507	2,051,062,867
Financial Liabilities				
Loans payable**	–	1,521,269,853	5,476,849,755	6,998,119,608
Lease liabilities	–	171,797,454	619,157,476	790,954,930
Accounts payable and accrued expenses*	81,931,561	214,781,270	–	296,712,831
	81,931,561	1,907,848,577	6,096,007,231	8,085,787,369
Net financial assets (liabilities)	₱1,215,980,537	(₱1,202,421,315)	(₱6,048,283,724)	(₱6,034,724,502)

**Excluding statutory payables*
***Includes future interest payments*

b. *Market Risk*
Market risk is the risk of loss on future earnings, on fair values or on future cash flows that may result from changes in market prices. The value of a financial instrument may change as a result of changes in equity prices, foreign currency exchanges rates, interest rates and other market changes.

Foreign Exchange Risk
Foreign currency risk is the risk that the value of the Group's financial instruments denominated other than the Group's functional currency diminishes due to unfavorable changes in foreign exchange rates. The Group's transactional currency exposures arise from cash and cash equivalents, receivables and accounts payable and accrued expenses.

The Group's foreign currency-denominated financial instruments as of March 31, 2020 and December 31, 2019 follow:

	31-Mar-2020		31-Dec-2019	
	US Dollar	**Peso Equivalent**	US Dollar	Peso Equivalent
Financial assets				
Cash and cash equivalents	**$2,162,348**	**₱110,374,891**	$1,825,094	₱92,611,861
Receivables	**557,375**	**28,450,650**	1,392,423	70,657,092

	31-Mar-2020		31-Dec-2019	
	US Dollar	**Peso Equivalent**	US Dollar	Peso Equivalent
Restricted Cash	**870,201**	**44,418,540**	870,200	47,360,677
	3,589,924	**183,244,081**	4,087,717	210,629,630
Financial liabilities				
Accounts payable and accrued expenses	**141,015**	**7,197,970**	933,283	47,358,522
Net exposure	**$3,448,909**	**₱176,046,111**	$3,154,434	₱163,271,108

As of March 31, 2020 and December 31, 2019, the exchange rates used for conversion are ₱51.044 and ₱50.744 per $1, respectively.

There is no other impact on the Group's equity other than those already affecting income before income tax.

Interest Rate Risk
The Group's exposure to market risk for changes in interest rates relates primarily to the Group's loans payable. Interest rate of loans payable is fixed for the first five (5) years or first seven (7) years and will be repriced thereafter.

There is no other impact on the Group's equity other than those already affecting income before income tax.

c. *Credit Risk*

Credit risk is the possibility of loss for the Group if its receivable counterparties fail to discharge their contractual obligations. With respect to credit risk arising from the other financial assets of the Group, which comprise of cash and cash equivalents, receivables, financial assets at FVTPL, and restricted cash, the Group's exposure to credit risk could arise from default of the counterparty.

The Group trades only with recognized, creditworthy third parties. However, the Group's credit risk exposure is concentrated on a few counterparties as inherent in the oil exploration and production and renewable energy businesses. The Group has a well-defined credit policy and established credit procedures. In addition, receivable balances are being monitored on a regular basis to ensure timely execution of necessary intervention efforts.

The table below summarizes the Group's gross maximum credit risk exposure from its financial instruments. These amounts are gross of collateral and credit enhancements, but net of any amounts offset and allowance for impairment losses:

	31-Mar-2020	31-Dec-2019
Cash in banks and cash equivalents	**₱1,081,694,463**	₱1,066,396,874
Receivables	**298,396,128**	332,889,623
Financial assets at FVTPL	**5,351,629**	8,240,096
Restricted cash	**796,865,456**	595,874,394
	₱2,182,307,676	₱1,963,400,987

An impairment analysis is performed at each reporting date using a provision matrix to measure ECL. The mechanics of the ECL calculations and the key elements are, as follows:

a. *Probability of default (PD)* is an estimate of the likelihood of default over a given time horizon.
b. *Exposure at default (EAD)* is an estimate of the exposure at a future default date taking into account expected changes in the exposure after the reporting date.
c. *Loss given default (LGD)* is an estimate of the loss arising in the case where a default occurs at a given time.

ECLs are recognized in two stages. For credit exposures for which there has not been a significant increase in credit risk since initial recognition, ECLs are provided for credit losses that result from default events that are possible within the next 12-months (a 12-month ECL). For those credit exposures for which there has been a significant increase in credit risk since initial recognition, a loss allowance is required for credit losses expected over the remaining life of the exposure, irrespective of the timing of the default (a lifetime ECL). In its ECL models, the Group relies on a broad range of forward looking information as economic inputs.

The inputs and models used for calculating ECLs may not always capture all characteristics of the market at the date of the financial statements. To reflect this, qualitative adjustments or overlays are occasionally made as temporary adjustments when such differences are significantly material.

The table below shows the aging by class of asset for the Group's financial assets as of March 31, 2020 and December 31, 2019:

	31-Mar-2020 (Unaudited)			
	Current	**More than 90 days**	**Credit impaired**	**Total**
Cash and cash equivalents*	**₱1,081,694,463**	**₱–**	**₱–**	**₱1,081,694,463**
Accounts receivable	**296,008,712**	**–**	**2,682,452**	**298,691,164**
Interest receivable	**1,993,950**	**–**	**–**	**1,993,950**
Other receivables	**123,466**	**–**	**–**	**27,968,537**
Restricted cash	**796,865,456**	**–**	**–**	**796,865,456**
	₱2,176,686,047	**₱–**	**₱2,682,452**	**₱2,207,213,570**

**excluding cash on hand*

	31-Dec-2019 (Audited)			
	Current	**More than 90 days**	**Credit impaired**	**Total**
Cash and cash equivalents*	**₱1,066,396,874**	**₱–**	**₱–**	**₱1,066,396,874**
Accounts receivable	**303,572,708**	**–**	**2,682,452**	**306,255,160**
Interest receivable	**1,348,378**	**–**	**–**	**1,348,378**
Other receivables	**27,968,537**	**–**	**–**	**27,968,537**
Restricted cash	**595,874,394**	**–**	**–**	**595,874,394**
	₱1,995,160,891	**₱–**	**₱2,682,452**	**₱1,997,843,343**

**excluding cash on hand*

Financial assets are classified as high grade if the counterparties are not expected to default in settling their obligations. Thus, credit risk exposure is minimal. Financial assets are classified as a standard grade if the counterparties settle their obligation with the Group with tolerable delays. Low grade accounts are accounts, which have probability of impairment based on historical trend. These accounts show propensity of default in payment despite regular follow-up actions and extended payment terms. The Group's cash in banks, cash equivalents, accounts receivable, interest receivable and restricted cash have high grade credit quality.

22. **Segment Information**

For management purposes, the Group is organized into business units based on their products and has four reportable segments as follows:

- The oil production segment is engaged in the oil and mineral exploration, development and production.
- The geothermal energy segment develops and operates geothermal steamfields and power plants.
- The solar energy segment carries out solar energy operations of the Group.
- Other activities pertain to research and investment activities.

No operating segments have been aggregated to form the above reportable operating segments.

Management monitors the operating results of its business units separately for the purpose of making decisions about resource allocation and performance assessment. Segment performance is evaluated based on operating profit or loss and is measured consistently with operating profit or loss in the consolidated financial statements.

	31-Mar-2020 (Unaudited)					
	Oil Production	**Geothermal Energy**	**Solar Energy**	**Other Activities**	**Elimination**	**Consolidated**
Segment revenue	**₱101,677,345**	**₱260,261,170**	**₱195,039,761**	**₱–**	**₱–**	**₱556,978,276**
Net income (loss)	**5,877,756**	**70,213,579**	**81,521,902**	**42,060,978**	**165,712**	**199,839,927**
Other comprehensive loss	**–**	**–**	**–**	**–**	**–**	**–**
Other information:						
Segment assets except deferred tax assets	**₱3,574,907,426**	**₱6,089,839,620**	**₱4,346,138,982**	**₱2,614,889,554**	**(₱2,979,003,560)**	**₱13,646,772,022**
Deferred tax assets - net	**₱9,601,071**	**₱2,834,134**	**₱217,910**	**₱–**	**₱–**	**₱12,653,115**
Segment liabilities except deferred tax liabilities	**₱380,370,858**	**₱3,283,589,555**	**₱2,093,714,068**	**₱437,936,773**	**(₱1,836,060)**	**₱6,193,775,194**
Deferred tax liabilities - net	**₱–**	**₱–**	**₱–**	**₱–**	**₱–**	**₱–**
Provision for (benefit from) income tax	**₱544,686**	**₱199,061**	**₱8,239,719**	**₱149,807**	**₱–**	**₱9,133,273**
Capital expenditures	**29,772,264**	**55,173,219**	**4,071,961**	**680,096**	**(83,108)**	**89,614,432**
Deferred oil exploration costs	**₱218,362,772**	**₱–**	**₱–**	**₱–**	**₱–**	**₱218,362,772**
Depletion, depreciation and amortization	**₱20,131,543**	**₱61,434,032**	**₱44,398,961**	**₱747,534**	**₱–**	**₱126,712,069**

	31-Dec-2019 (Audited)					
	Oil Production	Geothermal Energy	Solar Energy	Other Activities	Elimination	Consolidated
Segment revenue	₱351,057,274	₱1,139,162,750	₱631,944,707	₱–	₱–	₱2,122,164,731
Net income (loss)	37,056,507	321,474,746	209,475,962	203,929,129	(238,003,688)	533,932,656
Other comprehensive loss	822,545	(2,464,127)	(531,118)	(3,274,267)	–	(5,446,967)
Other information:						
Segment assets except deferred tax assets	₱3,599,142,103	₱5,937,038,323	₱4,225,274,049	₱2,665,532,940	(₱3,075,388,611)	₱13,351,598,804
Deferred tax assets - net	₱9,601,071	₱2,834,134	₱188,787	₱–	₱–	₱12,623,992
Segment liabilities except deferred tax liabilities	₱410,483,292	₱3,201,001,838	₱2,054,341,913	₱433,089,051	(₱503,314)	₱6,098,412,780
Deferred tax liabilities - net	₱–	₱–	₱–	₱–	₱–	₱–
Provision for (benefit from) income tax	(₱839,974)	(₱61,826)	₱12,523,711	₱557,903	₱–	₱12,179,814
Capital expenditures	₱36,519,811	₱264,104,747	₱647,523,109	₱2,343,099	(₱1,125,911)	₱949,364,855
Deferred oil exploration costs	₱192,958,190	₱–	₱–	₱–	₱–	₱192,958,190
Depletion, depreciation and amortization	₱68,072,511	₱256,012,915	₱157,983,213	₱4,618,436	(₱639,002)	₱486,048,073

InterGroup investments, revenues and expenses are eliminated during consolidation.

23. Basic/Diluted Earnings Per Share

The computation of the Group's earnings per share follows:

	31-Mar-2020	31-Mar-2019	31-Dec-2019
Net income attributable to equity holders of the Parent Company	**₱126,044,265**	₱131,609,034	₱292,835,761
Weighted average number of shares	**568,711,842**	568,711,842	568,711,842
Basic/diluted earnings per share	**₱0.2216**	₱0.2314	₱0.5149

Earnings per share are calculated using the net income attributable to equity holders of the Parent Company divided by the weighted average number of shares.

24. Non-controlling Interests

As of March 31, 2020 and December 31, 2019, non-controlling interests (NCI) pertain to the 10% shareholdings of EEIPC in PetroGreen, 35% shareholdings of ACEPH (formerly PHINMA) and PNOC-RC in MGI and 44% shareholdings of EEIPC in PetroSolar.

As of March 31, 2020 and December 31, 2019 and 2018, the accumulated balances of and net income attributable to non-controlling interests are as follows:

	Unaudited	Audited
	31-Mar-20	31-Dec-19
Accumulated balances of non-controlling interests:		
MGI	**₱983,179,469**	₱958,604,717
PetroSolar	**991,162,843**	955,293,206
PetroGreen	**437,792,602**	424,441,329
	₱2,412,134,914	₱2,338,339,252

	Unaudited	Audited
	31-Mar-20	31-Dec-19
Net income attributable to non-controlling interests:		
MGI	**₱24,574,753**	₱112,516,161
PetroSolar	**35,869,637**	92,169,424
PetroGreen	**13,351,273**	36,411,310
	₱73,795,662	₱241,096,895

25. **Others**

a. The Interim Financial Report (March 31, 2020) is in compliance with generally accepted accounting principles.

b. The same policies and methods of computation were followed in the preparation of the interim financial report compared to the December 31, 2019 Consolidated Audited Financial Statements.

c. No unusual item or items affected the assets, liabilities, equity and cash flows of the March 31, 2020 Financial Statements.

d. Earnings per share is presented in the face of the unaudited statements of income for the period ended March 31, 2020 and December 31, 2019.

e. No significant events happened during the quarter that will affect the March 31, 2020 Unaudited Financial Statements.

f. There are no seasonal aspects that had a material effect on the financial condition or results of operation of the Company.

g. There is no foreseeable event that will trigger direct or contingent financial obligation that is material to the Company, including any default of accelerated obligation.

h. There are no material off-balance sheet transactions, arrangements, obligations and other relationships of the Company with other entities or persons that were created during the period.

i. There are no changes in estimates of amounts reported in prior periods of the current financial year or changes in estimates of amounts reported in prior financial years that could have material effect in the current period.

j. Our Company has no contingent liabilities or assets during the period.

Item 2 - Management's Discussion and Analysis or Plan of Operation

1. Management's Discussion and Analysis (Amounts are in Philippine Peso (P))

1. Consolidated Financial Position (As of March 31, 2020 and December 31, 2019)

	Unaudited 31-Mar-20	Audited 31-Dec-19	% Change	% in Total Assets
ASSETS				
Cash and cash equivalents	P1,085,458,463	P1,066,698,077	**1.76%**	7.95%
Financial assets at fair value through profit and loss (FVPL)	5,351,629	8,240,096	-35.05%	0.04%
Receivables	298,396,128	332,889,623	-10.36%	2.18%
Prepaid expenses and other current assets	1,022,146,871	739,069,787	38.30%	7.48%
Property and equipment-net	8,507,490,401	8,536,605,048	-0.34%	62.28%
Deferred oil exploration cost	218,362,772	192,958,190	13.17%	1.60%
Investment in a joint venture	1,616,179,585	1,563,732,303	3.35%	11.83%
Right of use of asset	397,524,339	403,394,701	-1.46%	2.91%
Investment properties-net	1,611,533	1,611,533	0.00%	0.01%
Deferred tax assets-net	12,653,115	**12,623,992**	0.23%	0.09%
Other noncurrent assets	494,250,300	506,399,446	-2.40%	3.62%
TOTAl ASSETS	**P13,659,425,136**	**P13,364,222,796**	2.21%	100.00%
LIABILITIES AND EQUITY				
Accounts payable and accrued expenses	425,175,433	343,716,074	23.70%	3.11%
Current portion of loans payable	1,185,253,029	1,197,555,427	-1.03%	8.68%
Lease Liability-current	25,823,001	18,974,634	36.09%	0.19%
Income tax payable	12,487,036	4,019,134	210.69%	0.09%
Loans payable - net of current portion	4,120,146,644	4,102,283,436	0.44%	30.16%
Lease Liability-non-current	318,854,915	318,854,915	0.00%	2.33%
Asset retirement obligation	92,047,146	90,621,021	1.57%	0.67%
Other noncurrent liability	13,987,990	22,388,139	-37.52%	0.10%
TOTAL LIABILITIES	**6,193,775,194**	**6,098,412,780**	1.56%	45.34%
EQUITY				
Attributable to equity holders of the Parent Company	5,053,515,028	**4,927,470,764**	2.56%	37.00%
Non-controlling interest	2,412,134,914	**2,338,339,252**	3.16%	17.66%
TOTAL EQUITY	**7,465,649,942**	**7,265,810,016**	2.75%	54.66%
TOTAL LIABILITIES AND EQUITY	**P13,659,425,136**	**P13,364,222,796**	2.21%	100.00%

Total assets amounted to P13.659 billion and P13.364 billion as of March 31, 2020 and December 31, 2019, respectively.

Cash and cash equivalents consist of cash on hand, cash in banks and money market placements with original maturities of not more than three months. The 1.76% net increase from P1.067 billion as of December 31, 2019 to P1.085 billion as of March 31, 2020 is mainly due to the continuous cash inflows from operations of the group, net of working capital requirements during the period.

Financial assets at fair value through profit and loss (FVPL) amounted to P5.351 million and P8.240 million as of March 31, 2020 and December 31, 2019, respectively. The 35.05% net decrease is due to net downward movement of the market prices of the Company's investments in stocks traded in the Philippine Stock Exchange (PSE) resulting from the market downturn due to the COVID 19 pandemic.

The **Receivables** account mainly consists of receivables from electricity sales and lifting/sales of crude oil revenue. The 10.36% decline is mainly due to:

- Collection of receivables during the period; and
- Lower receivable from oil lifting due to the drop of crude oil price.

Prepaid expenses and other current assets consist of restricted cash, supplies inventory, prepaid expenses, crude oil inventory and other current assets. The bulk of the 38.30% increase from P739.07 million to P1.022 billion is mainly due to funding of the debt service payment account, and additional prepayments made for insurances and other expenses.

Property, plant and equipment (PPE) amounted to P8.507 billion as of March 31, 2020 and P8.537 billion as of December 31, 2019. The 0.34% net decrease is mainly due to the continuous depreciation of the Renewable Energy Power Plants and depletion of the oil assets.

Deferred oil exploration cost increased by 13.17% resulting from drilling of new production wells in line with the committed well in the Etame Production Sharing Contract extension.

Investment in a joint venture refers to the remaining 40.00% shareholdings in PWEI. The 3.35% net increase from P1.564 billion to P1.616 billion mainly pertains to the Group's share in net income of PWEI during the period.

Right of use of asset decline pertains to the amortization of the account for the period,.

The Investment properties account remains the same as of March 31, 2020.

Deferred tax assets – net occurs due to timing differences in recognizing temporary deductible expenses and temporary taxable revenues such as accrued profit share, accretion expenses, accrued retirement liability, provision for probable losses, unrealized gains or losses and change in crude oil inventory. As of March 31, 2020 and December 31, 2019, this amounted to P12.653 million and P12.624 million, respectively.

Other non-current assets amounted to P494.250 million and P506.399 million as of March 31, 2020 and December 31, 2019, respectively. The 2.4% net decrease is mainly due to collection of MGI's VAT refund and recoupment of advances to suppliers for the construction of MGI substation.

Accounts payable and accrued expenses amounted to P425.175 million and P343.716 million as of March 31, 2020 and December 31, 2019, respectively. The 23.7% increase mainly pertains to additional accruals of interest expenses and other costs made during the period.

The minimal change in Current portion and long-term portion of loan payable is mainly due to amortization of deferred financing cost.

Lease liability - current portion amounted to P25.823 million and P18.975 million as of March 31, 2020 and December 31, 2019. The increase pertains to the amortization of interest expense during the period.

The bulk of the Income tax payable pertains to PSC's outstanding tax payable - 5.00% provision for income tax under the PEZA rules. For MGPP, no income tax was computed because it is under the Income tax Holiday, as part of its incentives under RE Law.

Asset retirement obligation amounted to P92.047 million and P90.621 million as of March 31, 2020 and December 31, 2019, respectively. The 1.57% net increase in this account pertains to the additional accretion during the period.

Other non-current liabilities amounted to P13.988 million and P22.388 million as of March 31, 2020 and December 31, 2019, respectively. The 37.52% net decrease mainly pertains to payment of retirement benefit made during the period.

Equity attributable to equity holders of the Parent Company amounted to P5.054 million or P8.89 book value per share as of March 31, 2020 as compared with P4.927 million or P8.66 book value per share as of December 31, 2019. The increase is mainly due to continuous income generation from the Renewable Energy Operations.

Non-controlling interest (NCI) pertains to the following:

- 10% share of EEI-PC in PetroGreen;
- 25% share of Trans-Asia, the 10% share of PNOC-RC, and 10% of the 65% share of EEI-PC (indirect) in MGI;
- 44% share of EEI-PC (direct) and 10% of 56% share (indirect) in PSC;

Non-controlling interest increased by 3.16% from P2.338 billion to 2.412 billion due to the additional net income from the RE projects.

2. Consolidated Results of Operation (for the quarter ending March 31, 2020 and March 31, 2019)

	Unaudited		% Change	% to Total Revenues
	31-Mar-20	31-Mar-19		
REVENUES				
Electricity sales	455,300,931	474,584,020	-4.06%	81.74%
Oil revenues	101,677,345	84,156,872	20.82%	18.26%
	556,978,276	558,740,892	-0.32%	100.00%
COST OF SALES				
Cost of sales - Electricity	194,858,930	192,044,933	1.47%	34.99%
Oil production operating expenses	62,285,312	53,521,762	16.37%	11.18%
Change in crude oil inventory	(4,184,314)	(5,504,817)	-23.99%	-0.75%
Depletion	13,160,926	27,428,155	-52.02%	2.36%
	266,120,854	267,490,033	-0.51%	47.78%
GROSS INCOME	290,857,422	291,250,859	-0.14%	52.22%
GENERAL AND ADMINISTRATIVE EXPENSES	39,343,862	38,390,185	2.48%	7.06%
OTHER INCOME (CHARGES)				
Interest income	5,709,934	7,480,041	-23.66%	1.03%
Net unrealized foreign exchange gain (loss)	692,203	(1,550,869)	-144.63%	0.12%
Net unrealized gain on fair value changes on financial assets at FVPL	(2,888,467)	795,869	-462.93%	-0.52%
Interest expense	**(93,628,095)**	(101,925,607)	-8.14%	-16.81%
Accretion expense	(1,165,830)	(1,149,863)	1.39%	-0.21%
Share in net income of an Associate	52,447,282	61,826,847	-15.17%	9.42%
Miscellaneous income (charges)	**(3,707,386)**	2,509,827	-247.71%	-0.67%
	(42,540,359)	(32,013,755)	32.88%	-7.64%
INCOME BEFORE INCOME TAX	208,973,201	220,846,919	-5.38%	37.52%
PROVISION FOR INCOME TAX	9,133,273	3,888,841	134.86%	1.64%
NET INCOME	199,839,928	216,958,078	-7.89%	35.88%
NET INCOME ATTRIBUTATBLE TO:				
Equity Holders of the Parent Company	126,044,266	131,609,034	-4.23%	22.63%
Noncontrolling interest	73,795,662	85,349,044	-13.54%	13.25%
NET INCOME	199,839,928	216,958,078	-7.89%	35.88%

Note: Differences in amounts are due to rounding off

The Group's **consolidated net income** amounted to P199.839 million and P216.958 million for the 1st quarter ending March 31, 2020 and for the same period in 2019.

The Group's **consolidated net income attributable to equity holders of the Parent Company** amounted to P126.044 million or P0.222 earnings per share as of March 31, 2020 and P131.609 million or P0.231 earnings per share as of March 31, 2019.

The main drivers of the decline in the net income are:

- Repricing of MGI's electricity sales agreement in middle 2019; and
- lower share in net income of PWEI due to lower wind speed during the period.

These declines were however, partially offset by the increase in PSC's net income due to the entry of the TSPP2; and increase in oil revenues during the quarter due to higher lifting volumes made from 1.1 MMBO to 1.4 MMBO brought about by new production wells that were put on line.

Revenues:

Electricity sales refer to the electricity power generation from MGPP and TSPP. The net decline in the account is mainly due to the repricing of MGI's ESA in the middle of 2019. This is somehow mitigated by the entry of the TSPP2 revenues.

Oil revenues increased by 20.82% from P84.156 million as of March 31, 2019 to P101.677 million as of March 31, 2020. The increase is mainly due to increase in production barrels resulting from the new wells drilled (ET-9H and ET-11H) which was put online on November 27, 2019 and January 4, 2020, respectively.

Costs and Expenses:

Costs of electricity sales pertain to the direct costs of generating electricity power including operating and maintenance costs (O&M) of power plant and fluid collection and reinjection system (FCRS), depreciation, and other costs directly attributed to producing electricity. The 1.47% slight increase is mainly due to expenses relative to entry of the TSPP2.

Cost of oil production increased by 16.37% from P53.522 million as of March 31, 2019 to P62.285 million as of March 31, 2020 mainly due higher expense for the period resulting from higher production barrels.

The 52.02% decline in **depletion** from is due to increase in the reserves estimates.

General and administrative expenses, Other Income (Charges) and Provision for (Benefit From) Income Tax:

General and administrative expenses (G&A) slightly increased by 2.48% mainly due to higher expenses incurred during the period resulting from the Renewable Energy operations expansion.

Other income (charges) amounted to P(42.540) million and P(32.014) million as of March 31, 2020 and 2019, respectively. Below presents the itemized discussion of the changes in other income (charges) – net account.

- 23.66% decrease in interest income due to use of funds for the expansion;
- Upturn in net unrealized forex from loss of P1.55 million to unrealized gain of P0.692 million due to changes in forex rates;
- Downturn in the unrealized changes on financial assets at FVTPL from P0.795 million unrealized gain to P2.888 million unrealized loss due to the negative impact of the COVID 19 pandemic resulting to decline in market prices in the stock market;
- 8.14% decline in interest expense relative to instalment payment of the principal loans;
- 1.39% increase in accretion expense mainly due to change in estimates;
- 15.17% decrease in share in net income of a joint venture due to lower net income of PWEI for the period resulting from low energy generation;

- Decline in miscellaneous income mainly due to recognition of interest expense relative to the lease liability.

Provision for (benefit from) income tax:
Provision for income tax current - pertains to PSC's outstanding tax payable - 5.00% provision for income tax under the PEZA rules. For MGPP, no income tax was computed because it is under the Income tax Holiday, as part of its incentives under RE Law.

Non-controlling interest (NCI) as of March 31, 2020 and same period 2019 pertains to the following:

- 10% share of EEI-PC in PetroGreen;
- 25% share of Trans-Asia, the 10% share of PNOC-RC, and 10% of the 65% share of EEI-PC (indirect) in Maibarara;
- 44% share of EEI-PC (direct) and 10% of 56% share (indirect) in to PetroSolar;

3. Consolidated Financial Position (March 31, 2020 and March 31, 2019)

	Unaudited 31-Mar-20	Unaudited 31-Mar-19	% Change	% in Total Assets
ASSETS				
Cash and cash equivalents	P1,085,458,463	P1,159,197,174	-6.36%	7.95%
Financial assets at fair value through profit and loss (FVPL)	5,351,629	9,278,575	-42.32%	0.04%
Receivables	298,396,128	279,773,874	6.66%	2.18%
Prepaid expenses and other current assets	1,022,146,871	862,292,451	18.54%	7.48%
Property and equipment-net	8,507,490,401	8,371,827,243	1.62%	62.28%
Deferred oil exploration cost	218,362,772	236,247,437	-7.57%	1.60%
Investment in a joint venture	1,616,179,585	1,576,514,538	2.52%	11.83%
Right of use of asset	397,524,339	-	100.00%	2.91%
Investment properties-net	1,611,533	1,611,533	0.00%	0.01%
Deferred tax assets-net	12,653,115	10,546,665	19.97%	0.09%
Other noncurrent assets	494,250,300	684,576,314	-27.80%	3.62%
TOTAl ASSETS	**P13,659,425,136**	**P13,191,865,804**	3.54%	100.00%
LIABILITIES AND EQUITY				
Accounts payable and accrued expenses	425,175,433	522,799,204	-18.67%	3.11%
Current portion of loans payable	1,185,253,029	731,283,710	62.08%	8.68%
Lease Liability-current	25,823,001	-	100.00%	0.19%
Income tax payable	12,487,036	9,469,400	31.87%	0.09%
Loans payable - net of current portion	4,120,146,644	4,947,105,639	-16.72%	30.16%
Lease Liability-non-current	318,854,915	-	100.00%	2.33%
Asset retirement obligation	92,047,146	64,359,302	43.02%	0.67%
Other noncurrent liability	13,987,990	24,795,416	-43.59%	0.10%
TOTAL LIABILITIES	**6,193,775,194**	**6,299,812,671**	-1.68%	45.34%
EQUITY				
Attributable to equity holders of the Parent Company	5,053,515,028	4,770,431,237	5.93%	37.00%
Non-controlling interest	2,412,134,914	2,121,621,896	13.69%	17.66%
TOTAL EQUITY	**7,465,649,942**	**6,892,053,133**	8.32%	54.66%
TOTAL LIABILITIES AND EQUITY	**P13,659,425,136**	**P13,191,865,804**	3.54%	100.00%

Total assets amounted to P13.659 billion and P13.192 billion as of March 31, 2020 and March 31, 2019, respectively.

Cash and cash equivalents consist of cash on hand, cash in banks and money market placements with original maturities of not more than three months. The 6.36% net decline from P1.159 billion as of March 31, 2019 to P1.085 billion as of March 31, 2020 is mainly due to the following:

- Payment of instalment loan principal due;
- Purchase of MGI lot and construction of substation;
- Completion of the TSPP2
- Declaration of dividends to non-controlling interests

These are partially offset by the continuous collection from proceeds from electricity sales and oil operations.

Financial assets at fair value through profit and loss (FVPL) amounted to P5.352 million and P9.279 million as of March 31, 2020 and same period 2019, respectively. The 42.32% net decrease is due to decline in market prices of the Company's investments in stocks traded in the Philippine Stock Exchange (PSE) due to the COVID 19 pandemic.

The **Receivables** account mainly consists of receivables from electricity sales and lifting/sales of crude oil revenue. The 6.66% increase is mainly due to additional receivable from the TSPP2.

Prepaid expenses and other current assets consist of restricted cash, supplies inventory, prepaid expenses, crude oil inventory and other current assets. The bulk of the 18.54% net increase from P862.292 million to P1.022 billion is mainly due to funding of the debt service payment accounts.

Property, plant and equipment (PPE) amounted to P8.507 billion and P8.372 billion as of March 31, 2020 and March 31, 2019, respectively. The 1.62% net increase is mainly due to completion of the TSPP2, purchase of lot and construction of substation for MGPP. This is net or the continuous depreciation of the Renewable Energy Power Plants and depletion of the oil assets.

Deferred oil exploration cost decreased by 7.57% resulting from the reclassification of signature bonus paid to the Gabonese Government for the renewal of the Production Sharing Contract – Etame to intangible asset account.

Investment in a joint venture refers to the remaining 40.00% shareholdings in PWEI. The 2.52% net increase from P1.577 billion to P1.616 billion mainly pertains to the Group's share in net income of PWEI during the period, net of dividend declaration.

Right of use of asset pertains to the set-up of the account in compliance with the new PFRS 16 standards. This is relative to the long-term leases of lots for the Group's power plant facilities.

Deferred tax assets – net occurs due to timing differences in recognizing temporary deductible expenses and temporary taxable revenues such as accrued profit share, accretion expenses, accrued retirement liability, provision for probable losses, unrealized gains or losses and change in crude oil inventory. As of March 31, 2020 and March 31, 2019, this amounted to P12.653 million and P10.547 million.

Other non-current assets amounted to P494.250 million and P684.576 million as of March 31, 2020 and March 31, 2019, respectively. The 27.80% net decrease is mainly due to the derecognition of long-term prepaid rent in accordance with the new PFRS 16 standards.

Accounts payable and accrued expenses amounted to P425.175 million and P522.799 million as of March 31, 2020 and March 31, 2019, respectively. The 18.67% decrease mainly pertains to settlement of payables during the period.

Current portion of loan payable as of March 31, 2020 amounted to P1.185 billion and P731.284 million as of March 31, 2019. The 62.08% increase is mainly due to reclassification of currently maturing debt from long-term loan.

The bulk of the Income tax payable pertains to PSC's outstanding tax payable - 5.00% provision for income tax under the PEZA rules. For MGPP, no income tax was computed because it is under the Income tax Holiday, as part of its incentives under RE Law.

Loans payable – net of current portion amounted to P4.120 billion and P4.947 billion as of March 31, 2020 and March 31, 2019, respectively. The 16.72% net decrease is mainly due to the scheduled instalment payment made during the period.

Asset retirement obligation amounted to P92.047 million and P64.359 million as of March 31, 2020 and March 31, 2019, respectively. The 43.02% increase in this account resulted from changes in estimates made during the period.

Other non-current liabilities amounted to P13.988 million and P24.795 million as of March 31, 2020 and March 31, 2019, respectively. The 43.59% net decrease mainly pertains to payment of retirement benefit made during the period.

Equity attributable to equity holders of the Parent Company amounted to P5.053 billion or P8.886 book value per share as of March 31, 2020 as compared to P4.770 billion or P8.388 book value per share as of March 31, 2019.

Non-controlling interest (NCI) pertains to the following:

- 10% share of EEI-PC in PetroGreen;
- 25% share of Trans-Asia, the 10% share of PNOC-RC, and 10% of the 65% share of EEI-PC (indirect) in MGI;
- 44% share of EEI-PC (direct) and 10% of 56% share (indirect) in PSC;

Non-controlling interest increased by 13.69% from P2.122 billion to P2.412 billion due to continuous net income from the RE projects, and additional equity infusion, net of dividend declared during the period.

4. **Key Performance indicators - refer to attached financial soundness indicators**

5. **Discussion of indicators of the Group's Level of Performance**

Material Commitments

Aside from the committed developments of the prospective projects, there are no other foreseen material commitments during the period.

Productivity Program

For the electricity sales,

- the expansion of the TSPP (Phase 2) will increase the power generation from 50 MW to 70 MW;
- the development of the prospective projects will increase the Group's capacity and power generation

For oil revenue, the consortium of the Etame Marine completed the three-well drilling program, which was conducted in October 2019 to March 2020, this will contribute positively in maintaining and increasing overall production from ~11,000 barrels of oil per day (BOPD) to ~22,000 BOPD.

Receivable Management

The group's receivables are mainly due from sale of electricity to AC Energy and Transco and crude oil in Etame Gabon, through the consortium operator. These are being recorded once sale is made. Payment is received every 30-45 days following each sale.

For electricity sales form TSPP and NWPP, the payment for the Actual FIT Revenue is sourced from the FIT-All Fund, specifically the Actual FIT Differential (FD) and the Actual Cost Recovery Revenue (ACRR). The FD is the difference between the Actual FIT Revenue and the ACRR and is collected from on-grid consumers as a uniform charge and applied to all billed kilowatt-hours. For FIT-Eligible RE Plants connected to the Wholesale Electricity Spot Market ("WESM"), the ACRR refers to the WESM proceeds remitted to the FIT-All Fund by the Independent Electricity Market Operator of the Philippines, Inc. (“IEMOP”), which took over the Philippine Electricity Market Corporation (“PEMC”) as operator of the electricity spot market. PWEI and PSC regularly receive the both the ACRR and FD components on time, which is 45 days after billing date.

PWEI and PSC manage this risk through proper and meticulous allocation of funds, proper timing of expenditures, employment of cost-cutting measures, and sourcing short-term funding requirements from local banks and investment houses or from affiliated companies.

For the sixteen (17) years since oil production inception, there was no event that the buyer failed to remit the proceeds of the sale. However, the group is willing to look for another buyer should there be some problem that may happen in the future.

Liquidity Management
Management of liquidity requires a flow and stock perspective. Constraint such as political environment, taxation, foreign exchange, interest rates and other environmental factors can impose significant restrictions on firms in management of their financial liquidity.

The Group considers the above factors and pays special attention to its cash flow management. The Company identifies all its cash requirements for a certain period and invests unrestricted funds to money market placements to maximize interest earnings.

The Group does not anticipate any cash flow or liquidity problems within the next twelve (12) months. The Group is not in default of any, note, loan, lease, or other indebtedness or financing arrangement requiring it to make payments.

Inventory Management
The only inventory is the crude oil produced in Gabon. The buyer lifts certain volume and pays the same in 30 days. The operator sees to it that crude oil inventory does not reach 800,000 barrels at any one time to avoid overflow and to generate revenues to cover production costs.

Cost Reduction Efforts
In order to reduce costs, the Group employs a total of one hundred thirty seven (137) employees with multi-task assignments. The group also implements request for quotations to compare prices, quality of the products and services and negotiate the payment terms.

The Company’s general and administrative expense is equivalent to 2.48% of the total revenue.

Rate of Return of Each Stockholder

The Company has no existing dividend policy. However, the Company intends to declare dividends in the future in accordance with the Corporation Code of the Philippines. Dividend declared for two (2) most recent years.

Date of Declaration	Dividends per Share		Record Date	Payment Date
	Cash	Stock		
April 26, 2012	10%		May 18, 2012	June 14, 2012
April 26, 2012	10%		September 21, 2012	October 17, 2012
July 04, 2013	5%		July 25, 2013	August 20, 2013
July 26, 2018	5%		August 24, 2018	September 20, 2018

6. **Financial Disclosures in view of the current global financial condition:**

Assess the financial risks exposures of the Company and its subsidiaries particularly on currency, interest credit, and market and liquidity risks. If any change thereof would materially affect the financial condition and results of operation of the Company, provide a discussion in the report on quantitative impact or such risks and include a description of enhancement in the company's risk management policies to address the same:

The Group's principal financial instruments include cash and cash equivalents, trading and investment securities (financial assets at FVPL) and receivables. The main purpose of these financial instruments is to fund the Company's working capital requirements.

Financial Risk Management Objectives and Policies
Please refer to Note 21.

Operations Review and Business Outlook

A. OIL EXPLORATION

Foreign Operations
Gabon, West Africa

The daily oil production of the four oil fields (Ebouri, Etame, North Tchibala and Avouma) as of March 31, 2020 ranged from 6,930 – 22,035 barrels of oil per day (BOPD). The fluctuations in the daily production were due to the following: 1) Etame and SEENT Platform wells shut-in on January 14 upon the approach of Topaz Driller rig; 2) Field shutdown on February 16 due to flare gas leak; 3) various trips on the Avouma and SEENT platforms in February and March 2020 due to genset and ESP failures, and 4) FPSO gaslift compressor trip on March 28

Mercuria lifted its final cargo under its expiring Crude Oil Sale Purchase and Services Agreement (COSPA) in January 2020, while ExxonMobil lifted its first two (2) cargoes under a new COSPA in February and March 2020. Total cargo lifted by the consortium in Q1 2020 amounted to 1.40 Million barrels.

The 2019-2020 Etame Marin drilling campaign was completed during this period as two more wells (ET-11H and ETSEM-4H) were put on-line on January 04, 2020 and on March 22, 2020, respectively. Two (2) old wells, ET-10H and ETSEM-2H, were also worked-over during this period.

Philippine Operations

SC 14C2 – West Linapacan, Northwest Palawan

The SC 14C2 Consortium is negotiating with a potential farmee for a future drilling program, in exchange for a majority share and Operatorship of SC 14C2. This farm-in is subject to the approval of the DOE.

Summary of Petroleum Properties:

Contract No.	Contract Expiry	Participating Interest %	Location
Production Sharing Contract (PSC) 93 – Gabon	2028	2.525%	Gabon Offshore
Service Contracts (SC) – Philippines			
SC 6A – Octon-Malajon Block	2024	16.667%	Northwest Palawan
SC 14C2 – West Linapacan	2025	4.137%	Northwest Palawan
SC 75 – Offshore Northwest Palawan *(*under Force Majeure)*	2020*	15.000%	Northwest Palawan

The Company derives its petroleum revenues from its Gabon Operations. All contractual obligations with the Gabonese Government are complied with. Some of the Company's petroleum Service Contracts in the Philippines are in exploration stage and some contracts are being farmed out to reduce risk inherent to the business.

B. RENEWABLE ENERGY PROJECTS

Maibarara Geothermal Power Project

The 20-MW Maibarara-1 (MGPP-1) and 12-MW Maibarara-2 (MGPP-2) Geothermal Power Plants are on continuous operations. From January 01 – March 31, 2020, the combined net exported output is 64,665 MWh (40,941 MWh from MGPP-1 and 23,725 MWh from MGPP-2).

Nabas Wind Power Project

The 36-MW Nabas-1 Wind Power Plant (NWPP-1) has been operating normally, and for the January 01 – March 31, 2020, the total net energy exported to the grid reached 35,479 MWh.

Tarlac Solar Power Project

From January 01 – March 31, 2020, the 50-MW_{DC} Tarlac-1 Solar Power Plant (TSPP-1) exported a total net energy of 18,490 MWh.

Meanwhile, the 20-MW_{DC} Tarlac-2 Solar Power Project (TSPP-2) is still in its testing and commissioning stage, with a preliminary net export of 7,809 MWh.

On February 27, 2020 and March 18, 2020, the DOE formally issued to PetroSolar Corporation (PSC) the Certificate of Confirmation of Commerciality (COCOC) and the Certificate of Endorsement (COE) for TSPP-2, respectively. The COE is a prerequisite to the issuance of the Certificate of Compliance (COC). The COC will determine the official Commercial Operations Date (COD) for TSPP-2.

Puerto Princesa Solar Hybrid Power Project

PetroGreen is continuing its pre-development work program for the Puerto Princesa Solar Hybrid Power Project (PPSHPP). To date, PGEC has secured all local government endorsements needed for eventual facility development. In January 2020, PGEC was among seven (7) pre-qualified bidders for the 20-MW Palawan Main Grid Competitive Selection Process (CSP) of the Palawan Electric Cooperative (PALECO).

The CSP schedule of PALECO is slated for mid-2020, and PALECO aims to award the Power Supply Agreement (PSA) to the winning proponent within 2020. After which, the winning proponent will be required to put up the power generation facility within one (1) year. The final investment decision to proceed with actual power plant construction depends on securing this PSA with PALECO.

San Vicente Wind Hybrid Power Project

The Wind Energy Service Contract for PGEC's latest off-grid renewable energy project, the San Vicente Wind Hybrid Power Project (SVWPP), was signed by DOE Secretary Alfonso Cusi in October 2019. The SVWPP aims to put up a 5-10 MW off-grid wind-hybrid power facility in San Vicente, Palawan to meet the increasing electricity demand and address the lack of reliable power supply in the town through wind power or a hybrid thereof.

Plan of operations for the next 12 months:

Gabon, West Africa
Crude production will continue from the existing and newly-drilled wells, as the Gabon Consortium is currently firming up the most feasible Integrated Field Development Plan (IFDP) to extract the remaining recoverable oil volumes until at least 2028.

SC 6A – Octon, Northwest Palawan
Operator Philodrill will continue with the aforementioned Geological and Geophysical (G&G) works to define new leads to be further de-risked.

SC 14C2 - West Linapacan, Northwest Palawan
Operator Philodrill will conduct further G&G activities to validate the feasibility of extracting the remaining recoverable volumes in West Linapacan.

SC 75 - Offshore Northwest Palawan
The service contract is currently under Force Majeure. Once lifted, the Consortium will proceed to Subphase 2, with the conduct of a ~1,000 sq.km 3D seismic survey over the identified leads in SC 75.

Maibarara Geothermal Power Project
Power generation from both Maibarara -1 and Maibarara-2 will continue.

Nabas Wind Power Project
The plant will be in continuous operation from the 18 WTGs comprising the project's Phase 1.

Tarlac Solar Power Project
TSPP-1 and TSPP-2 will continue to supply electricity to the grid. Further, PSC aims to secure the ERC's approval for the TSPP-2's COC within the year.

Puerto Princesa Solar Hybrid Power Project
PGEC will participate in the 20-MW PALECO CSP within the year. In the event PALECO awards the PSA to PGEC, PGEC will construct the PPSHPP within one (1) year. The final investment decision to proceed with actual power plant construction depends on securing this PSA with PALECO.

San Vicente Wind Hybrid Power Project
PGEC will undertake the three-year pre-development stage starting 2020, consisting of: 1) Two-year wind measurement campaign, 2) LGU and regulatory permitting works, and 3) technical and economic feasibility works for a potential wind-hybrid system in San Vicente.

PETROENERGY RESOURCES CORPORATION AND SUBSIDIARIES

SUPPLEMENTARY INFORMATION AND DISCLOSURES REQUIRED ON REVISED SRC RULE 68

MARCH 31, 2020

Philippine Securities and Exchange Commission (SEC) issued the revised Securities Regulation Code Rule SRC Rule 68 which consolidates the two separate rules and labeled in the amendment as “Part I” and “Part II”, respectively. It also prescribed the additional information and schedule requirements for issuers of securities to the public.

Below are the additional information and schedules required by Revised SRC Rule 68 that are relevant to the Group. This information is presented for purposes of filing with the SEC and is not required part of the basic financial statements.

Schedule A. Financial Assets
The Group is not required to disclose the financial assets in equity securities as the total financial assets at fair value through profit and loss securities amounting to ₱5.352 million do not constitute 5% or more of the total current assets of the Group as at March 31, 2020.

Schedule B. Amounts Receivable from Directors, Officers, Employees, Related Parties and Principal Stockholders (Other than Related Parties)
As of March 31, 2020, there are no amounts receivable from directors, officers, employees, related parties and principal stockholders that aggregates each to more than ₱100,000 or 1% of total assets which-ever is less.

Schedule C. Amounts Receivable from Related Parties which are eliminated during the Consolidation of Financial Statements

The following is the schedule of receivables from related parties, which are eliminated in the consolidated financial statements as at March 31, 2020:

Name and Designation of debtor	Balance at beginning of period	Additions	Amounts Collected	Amounts written off	Not Current	Balance at end of period
PetroGreen Energy Corporation	₱–	₱1,434,950	₱999,448	₱–	₱–	₱435,502
Maibarara Geothermal, Inc.	–	1,264,134	454,622	–	–	809,512
PetroSolar	–	1,332,057	810,374	–	–	521,683
	₱–	₱4,031,141	₱2,264,444	₱–	₱–	₱1,766,697

Please refer to Note 25 of the Consolidated Financial Statements.

Schedule D. Long-term Debt
Please refer to the Consolidated Audited Financial Statement, Note 17 for details of the loans.

Schedule E. Indebtedness to Related Parties (Long-Term Loans from Related Companies)
The Group has no outstanding long-term indebtedness to related parties as of March 31, 2020.

Schedule F. Guarantees of Securities of Other Issuers
The Group does not have guarantees of securities of other issuers as of March 31, 2020.

Schedule G. Capital Stock

Title of issue	Number of shares authorized	Number of shares issued and outstanding as shown under related balance sheet caption	Number of Shares reserved for options, warrants, conversion and other rights	Number of shares held by related parties	Directors, Officers and Employees	Others
Common Shares	700,000,000	568,711,842	–	165,468,725	5,769,751	397,473,366

PETROENERGY RESOURCES CORPORATION AND SUBSIDIARIES

SCHEDULE OF FINANCIAL SOUNDNESS INDICATORS
AS OF MARCH 31, 2020 AND DECEMBER 31, 2019

Financial Soundness Indicators
Below are the financial ratios that are relevant to the Group for the first quarter ended March 31, 2020 and March 31, 2019 and year ended December 31, 2019:

Financial ratios	Formula	Unaudited 31-Mar-2020	Unaudited 31-Mar-2019	Audited 31-Dec-2019
Current ratio	Total current assets / Total current liabilities	**1.46:1**	1.83:1	1.37:1
Solvency ratio	After tax net profit + depreciation / Long-term + short-term liabilities	**0.05:1**	0.05:1	0.16:1
Debt-to-Equity Ratio	Total liabilities / Total stockholder's equity	**0.83:1**	0.91:1	0.84:1
Asset-to-Equity Ratio	Total assets / Total stockholder's equity	**1.83:1**	1.91:1	1.84:1
Interest rate coverage ratios	Earnings before interest and taxes (EBIT) / Interest expense*	**3.23:1**	3.17:1	2.33:1
Return on revenue	Net income / Total revenue	**35.88%**	38.83%	25.16%
Earnings per share	Net income / Weighted average no. of shares	**₱0.2216**	₱0.2314	₱0.5149
Price Earnings Ratio	Closing price / Earnings per share	**₱11.28**	₱17.93	₱7.96
Long term debt-to-equity ratio	Long term debt / Equity	**0.61:1**	0.73:1	0.62:1
EBITDA to total interest paid	EBITDA** / Total interest paid	**6.31**	1.49	3.64

**Interest expense is capitalized as part of the construction-in-progress account under PPE.*
***Earnings before interest, taxes, depreciation and amortization (EBITDA)*

PETROENERGY RESOURCES CORPORATION

SCHEDULE OF RETAINED EARNINGS AVAILABLE FOR DIVIDEND DECLARATION

MARCH 31, 2020

Unappropriated retained earnings, beginning	**₱117,510,959**
Prior year adjustments:	
Recognized gross deferred income tax assets, beginning	**18,192,533**
Unrealized marked-to-market gain on FVTPL	**(4,836,783)**
Unrealized foreign exchange (gain)/loss – net	**2,327,820**
Unappropriated retained earnings, as adjusted, January 1, 2019	**133,194,529**
Net income based on the face of unaudited financial statements	**5,877,756**
Movement in gross deferred tax assets	**–**
Unrealized foreign exchange loss - net (except those attributable to cash and cash equivalents)	**(536,497)**
Fair value adjustment - marked-to-market loss	**2,888,467**
Net loss actual/realized	**8,229,726**
TOTAL RETAINED EARNINGS AVAILABLE FOR DIVIDEND DECLARATION, MARCH 31, 2020	**₱141,424,255**

PETROENERGY RESOURCES CORPORATION
REPORT ON SRO PROCEEDS
March 31, 2020

On July 26, 2017, at the BOD meeting, the Parent Company was authorized to raise approximately one billion pesos (₱1,000,000,000) in capital, by offering and issuing to all eligible stockholders as of record date, the rights to subscribe up to all of the existing unissued common shares of the Parent Company (" Stock Rights Offer").

On September 29, 2017, the Parent Company filed its application for the listing and trading of rights shares with the PSE. On December 13, 2017, the PSE approved the application to list the Rights Shares.

The rights offer entitled eligible stockholders as of record date of January 12, 2018 to subscribe to one rights share for every 2.6 shares held at an offer price of ₱4.80 per share.

The rights offer was undertaken in January 22 to 26, 2018. Following the close of the offer period, the Parent Company successfully completed the stock rights offer for 157,975,512 common shares with gross proceeds of ₱758.28 million and was subsequently listed on the PSE on February 2, 2018.

The proceeds from the stock rights offer will be used for the development and expansion plans of the Group's renewable energy projects and general corporate requirements.

The table below shows the gross and net proceeds; each expenditure item where the proceeds were used

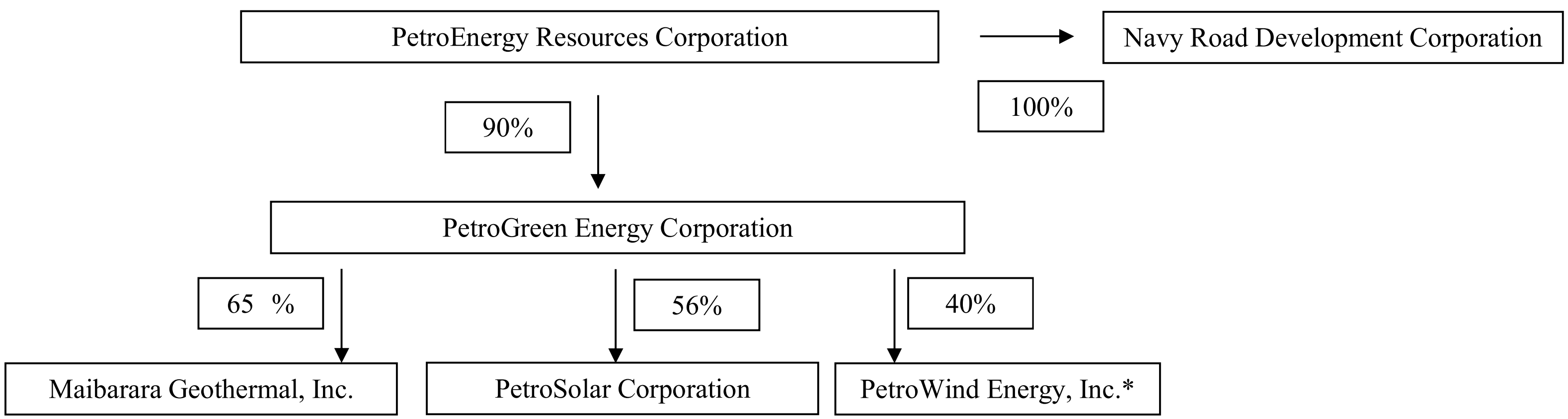
Proceeds from the Stock Rights Offering				
Gross Proceeds				PhP758,282,458
Less: Listing and Registration Fees				5,988,316
Net Proceeds				**PhP752,294,142**
	As of 31-Dec-18	**As of 31-Dec-19**	**As of 31-Mar-20**	**Total**
Less: Expenditures				
A. Development and expansion of Renewable Energy Projects	200,582,304	169,547,232	-	370,129,536
B. General and Corporate requirements	36,774,276	-	-	36,774,276
C. Loans and Interest	177,720,542	-	-	177,720,542
Total Expenses Allocated to Proceeds	415,077,122	169,547,232	-	**584,624,354**
Remaining proceeds as of March 31, 2020				**PhP167,669,788**

PETROENERGY RESOURCES CORPORATION AND SUBSIDIARIES
MAP OF RELATIONSHIPS OF THE COMPANIES WITHIN THE GROUP

Group Structure
Below is a map showing the relationship between and among the Group and its subsidiaries as of March 31, 2020:

PETROENERGY RESOURCES CORPORATION

GROUP STRUCTURE



*investment in a joint venture

SIGNATURES

Pursuant to the requirements of the Securities Regulation Code, the registrant has duly caused this report to be signed on behalf of the undersigned thereunto duly authorized.

Registrant : **PETROENERGY RESOURCES CORPORATION**

Signature and Title : Milagros V. Reyes - President

Signature and Title : Carlota R. Viray – Asst. Vice President for Finance

Date : June 29, 2020

REPUBLIC OF THE PHILIPPINES)
PASIG CITY) SS.

AFFIDAVIT WITH UNDERTAKING

I, **SAMUEL V. TORRES**, Filipino, of legal age, with office address at 7th Floor, JMT Building, ADB Avenue, Ortigas Center, Pasig City, after having been sworn in accordance with law, hereby depose and state that:

1. I am the Corporate Secretary of **PETROENERGY RESOURCES CORPORATION** (the "Corporation"), a corporation duly organized and existing under and by virtue of the laws of the Republic of the Philippines, with office address at 7th Floor, JMT Building, ADB Avenue, Ortigas Center, Pasig City;

2. The Corporation is in the process of preparing for its Regular Annual Stockholders' Meeting (ASM) to be held on **August 18, 2020**, and in this regard, has submitted its Preliminary Information Statement (SEC Form 20-IS) for the Securities and Exchange Commission's (SEC) review and is now finalizing the Definitive Information Statement duly integrating the SEC's comments and instructions thereon;

3. The Corporation is still finalizing its Unaudited Interim Financial Statements and Management Discussion and Analysis for the 2nd Quarter Ended June 30, 2020, and for this reason, the Corporation will be unable to attach the same to the Definitive Information Statement in time for the distribution on **July 24, 2020;**

4. I, in my capacity as the Corporation's Corporate Secretary, undertake to have the following performed at least five (5) calendar days prior to the date of the ASM:

   a. Provide hard copies of the Unaudited Interim Financial Statements and Management Discussion and Analysis for the 2nd Quarter Ended June 30, 2020 upon the stockholders' request;

   b. Upload to the Corporation's official website an electronic copy of the Financial Statements and Management Discussion and Analysis for the 2nd Quarter Ended June 30, 2020;

   c. Publish in a newspaper of general circulation that hard copies of the Financial Statements and Management Discussion and Analysis for the Second Quarter Ended June 30, 2020 will be provided to the stockholders upon their request and that the same could be viewed at the Corporation's official website.

IN WITNESS WHEREOF, I have executed this Affidavit with Undertaking this July 22, 2020 in Pasig City, Philippines.

SAMUEL V. TORRES
Corporate Secretary

SUBSCRIBED AND SWORN to before me this July 22, 2020, affiant exhibiting to me his TIN 133-734-895, as competent evidence of his identity.

ATTY. LOUIE MARK R. LIMCOLIOC
Appointment No. 112 (2020-2021)
Notary Public for Pasig, San Juan and Pateros
Until 31 December 2021
7F JMT Bldg. Ortigas Center, Pasig City
Roll No. 63341
PTR No. 5242299; 01/15/2020; Pasig City
IBP No. 113855; 01/15/2020; RSM
MCLE Compliance No. VI-0018291; 02/06/19

Doc. No. 265;
Book No. 54;
Page No. III;
Series of 2020.